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REAUTHORIZATION OF THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

HEARING

BEFORE THE

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

H.R. 2886

A BILL TO AMEND TITLE 5, UNITED STATES CODE, TO AUTHORIZE THE CONTINUATION OF THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM THROUGH THE END OF FISCAL YEAR 1995, AND FOR OTHER PURPOSES

JULY 18, 1989

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REAUTHORIZATION OF THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

TUESDAY, JULY 18, 1989

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMPENSATION
AND EMPLOYEE BENEFITS,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:44 a.m., in room 304, Cannon House Office Building, Hon. Gary Ackerman, chairman of the subcommittee, presiding.

Mr. ACKERMAN. The meeting is called to order.

Staff, which really runs things around here, has advised me that as penance for coming in late, I am going to forgo my statement. If you want to read it, you are welcome to do so.

Without objection, I am going to put the whole thing in the record.

[The statement of Mr. Ackerman follows:]

STATEMENT OF CHAIRMAN GARY L. ACKERMAN

The Subcommittee on Compensation and Employee Benefits will today consider H.R. 2886, The Performance Management and Recognition System (PMRS) Reauthorization Act of 1989. As I am sure everyone knows, the current system expires on September 30, 1989. I am also sure that everyone is familiar with the many problems which have characterized PMRS.

PMRS was intended to remedy the problems with the original merit pay system. But, in its 1987 report, the General Accounting Office found that "factors unrelated to performance which were prevalent under merit pay still exist . . .". In addition, GAO found that even though agencies are prohibited from prescribing ratings distributions, ". . . various factors such as budgetary constraints exerted pressure on agencies to influence ratings distributions." GAO also found that employees had the same negative perceptions of PMRS as they did of the old merit pay system.

The Office of Personnel Management, in its most recent report, came to many of the same conclusions. OPM found that employees still had concerns about the subjectivity of performance appraisals; that employees in higher grades are more likely to receive higher ratings and large awards; and that most employees are dissatisfied with the implementation of PMRS.

Not surprisingly, surveys done by the management associations have yielded similar results.

H.R. 2886, which I have introduced with the help of Representatives Steny Hoyer, attempts to address these problems with PMRS. First, H.R. 2886 would extend the current PMRS program for one year while fxing the so-called "glitch" which causes some employees under PMRS to receive smaller pay increases than they would under the GS system. During this one year-period, OPM and Federal agencies will have time to promulgate regulations and to educate employees about the new PMRS authorized by the rest of the bill. I believe that the one-year implementation period will help employees and agencies to understand the new system and thereby lessen the negative perceptions which today plague PMRS.

The new system will consist of a three-tier rating system with a fully successful level, one level above, and one level below. Employees who are rated at fully successful or higher will receive the full General Schedule pay increases. Those rated below fully successful will receive no pay adjustment until their performance rises to the fully successful level or higher.

Employees rated at the fully successful level will receive a full merit increase, equal to a step increase, in steps 1 through 3 of a grade. At step 4 or above they will receive ½ a merit increase. Employees rated one level above fully successful will receive a full merit increase regardless of their position in the grade.

All employees at the fully successful level or higher may receive a bonus. Recommendations for bonuses will be made by supervisors and forwarded to newly-established Performance Review Boards (PRB). The PRB's, made up of five employees, will review recommendations and decide who should receive an award and how much it should be.

I believe that by delinking performance awards from the summary ratings and by establishing PRB's we will go a long way toward eliminating the main problems in PMRS——forced distributions and the subjectivity of performance awards.

Today we will hear from the Office of Personnel Management, the General Accounting Office, and representatives of Federal managers.

Mr. ACKERMAN. The cosponsor of this legislation, Steny Hoyer, cannot be here today. But he has submitted a statement for the record. We all know his strong commitment to improving merit pay for Federal managers, and we want to thank him for his continuing assistance with this legislation.

Without objection, his statement will appear in the record, immediately following the statements of any of my colleagues on our panel, to whom the floor is open right now.

Mr. Myers.

Mr. MYERS. You have shamed us into putting things into the record, so I will follow suit. I am pleased to be here and am anxious to hear from our witnesses on this subject, which we have always had in government, and out of government, too, that is, how to evaluate personnel.

Mr. ACKERMAN. Without objection, Mr. Myers' brilliant statement is inserted in the record.

Mr. MYERS. Oh, you've read it already. [General laughter.]

[The prepared statement of Mr. Myers follows:]

STATEMENT BY CONGRESSMAN JOHN MYERS

Mr. Chairman, I commend you on conducting this hearing on legislation to reauthorize the Performance Management and Recognition System (PMRS).

One of the most difficult jobs I have to do as an employer is rating the performance of my employees whether in my congressional office or in my previous profession as a small town banker. Reviewing and grading the work of employees is a very emotional subject. We all support of the idea of employee receiving an annual performance rating. However, we may not agree on the methods of calculating the success rate of employees.

When we review legislation that established a review and appraisal system for some members of the federal work force, the complexities of such a system will most certainly surface. It appears that PMRS has greater support than the previous system, I still question if the system adequately addresses the goals of a true appraisal system.

I look forward to hearing the testimony from the witnesses. We must act quickly because of the need to reauthorize the PMRS program, but we must make sure that we craft a program that meets the needs of federal employees and is acceptable by the Administration.

Mr. ACKERMAN. You know, I think we should all go out to dinner one night and have a reading of our statements. [General laughter.]

Mr. MYERS. Just let us know when to come and we will be there.

Mr. ACKERMAN. Thank you very much.

Ms. Morella.

Ms. MORELLA. Mr. Chairman, you don't think I am about to digress from the protocol that has already been established. So I also ask unanimous consent that my opening statement be included in the record. I look forward to hearing our distinguished panel which you have assembled on this very important issue.

Mr. ACKERMAN. I thank my colleagues very much for their cooperation and their statements.

[The prepared statement of Ms. Morella and Mr. Hoyer follow:]

STATEMENT OF HON. CONSTANCE A. MORELLA

Mr. Chairman, The Subcommittee on Compensation and Employee Benefits has had some monumental issues before it this term—the pay raise issue, health benefits and now, the performance management and recognition system. Mr. Chairman, I appreciate your prompt attention to these subjects.

Proper delivery of Government services and implementation of Government regulations is dependent on a reliable, diligent and dedicated workforce. We will attract and retain such a workforce only if they are properly paid and receive benefits which, at least, are on par with the private sector. Similarly, we must have a talented group of managers to direct the Federal employees.

When the Performance Management and Recognition System (PMRS) was established in November 1984 to replace the Merit Pay System, which was created by the Civil Service Reform Act of 1984, it was to grant awards and merit increases to those Federal managers and supervisors in the GM 13 through 15 pay plan who are rated in the top grouping of the five-tier evaluation system.

Mr. Chairman, I do applaud a system which rewards outstanding performance. However, the reward must be meaningful it must be fair and it should not serve to inhibit or discourage those who did not come quite up to the expectation of the evaluator. Indeed, the evaluation is subjective and herein lies some of the human error which may work against improving the performance and morale of the Federal employee.

I commend you, Mr. Chairman, for including in your bill the establishment of a performance review board within agencies which will be responsible for choosing the recipients of the awards. I believe that this will help to eliminate some of the error which was borne by single individuals.

My comments are brief, Mr. Chairman, so that we can hear from the people who have conducted surveys and who have first hand knowledge of PMRS. You have assembled a distinguished panel today. I am sure that they will enlighten us as to their findings. I hope that they will also share with us some of their recommendations for improvement of PMRS. It is my hope that we will be able to act on their recommendations and incorporate them in your bill, if necessary.

Thank you, Mr. Chairman.

STATEMENT OF HON. STENY HOYER

Mr. Chairman, I commend you for holding this timely hearing on the Performance Management and Recognition System (PMRS). I have long supported the merit pay concept, and I share your commitment to improving PMRS.

I believe truly outstanding employees should be recognized and rewarded for superior performance. That's why, in 1984, I introduced legislation to create PMRS and why I have joined you in sponsoring the Performance Management and Recognition Reauthorization Act of 1989 (H.R. 2886).

Because authorization for PMRS is due to expire at the end of the current fiscal year, I asked the General Accounting Office (GAO) to review the program. I also met with organizations representing PMRS-covered employees and officials at the Office of Personnel Management (OPM)—as well as with you and your staff—to assess the program and map out its future.

Virtually everyone involved in the evaluation of PMRS agreed there is room for improvement in the program. The GAO reported that employees who were interviewed about PMRS believe nonperformance-related factors influence performance ratings and bonuses. (*Pay for Performance: Interim Report on the Performance Management and Recognition System,* May 1989) Budget constraints appear to be the primary cause of this problem.

There is a consensus among employees and managers' groups that bonus pool limits force supervisors to assign performance ratings that do not necessarily reflect an employee's level of performance. Related to this problem are charges of ratings quotas and other less direct pressures to control the number of high ratings. There have also been complaints that merit bonuses are rotated among employees from year to year.

The program has also been criticized by some as being too subjective. This is a pitfall for any appraisal system. However, because the number and size of bonuses is ultimately affected by the limit on bonus pools, inflated ratings for favored employees do have monetary consequences for others covered by the same bonus pool.

As a result of these practices, the program has had the unintended effect of damaging morale among covered employees. I am confident that the legislation we introduced last week addresses a number of concerns about the program. Our bill retains the merit pay concept in its bonus awards provisions while minimizing the effects of nonperformance factors on performance ratings.

The bill creates a two-step process aimed at preventing the size of bonus pools from driving performance ratings. Supervisors will continue to evaluate employees' work and assign performance ratings. However, it will be the responsibility of peer review boards to select employees from among those with satisfactory or better ratings for bonus awards. As a result, supervisors will no longer have to consider the amount of money available for bonuses before assigning their employees' performance ratings.

In addition, the bill sets the floor for the amount of money in bonus pools at 1.5% of PMRS payroll and authorizes agencies to increase bonus pools at their discretion.

In recent years, severe budget constraints have required federal managers to perform increasingly complex tasks facing government with creativity and resourcefulness. In my opinion, federal managers have risen to this challenge admirably—often without the recognition and compensation they deserve.

The effective delivery of government services rests in large part with the federal managers covered by PMRS. We must recognize their critical role and ensure that federal personnel policies are fair and promote the kind of resourcefulness the Nation needs. I believe the legislation we have introduced accomplishes those objectives.

Mr. ACKERMAN. I thank you for following suit and allowing me to make amends for my personal tardiness today. I think that brings us right back into the timeframe that we should have been in by now.

Without any further delay, we are very pleased today to welcome the new Director of the Office of Personnel Management at her very first appearance before our Subcommittee.

Ms. Newman, you have assumed your new responsibilities with great energy and enthusiasm, and I look forward, as does the entire subcommittee, to hearing your ideas and working with you in the months ahead.

Congratulations, and you may proceed as you wish.

STATEMENT OF CONSTANCE B. NEWMAN, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY CLAUDIA COOLEY, ASSOCIATE DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Ms. NEWMAN. Thank you.

Mr. Chairman, I do have a few formal remarks, and then have the balance of time for your questions.

Mr. ACKERMAN. Thank you.

Ms. NEWMAN. I have joining me today Claudia Cooley, who is the Associate Director for Personnel Systems and Oversight in the Office of Personnel Management.

I want to thank you very much for inviting me to appear this morning to discuss the Performance Management and Recognition System.

This system, PMRS, as we will probably be calling it for most of the morning, has been in operation for nearly five years and, as you know, is scheduled under the current law to terminate on September 30. The time is now here when we must examine this system and decide what to do.

While I am new at the Office of Personnel Management, I come to this particular issue with very definite views. I am a strong believer in using pay to reward excellence in performance.

As we strive to improve the quality of service that our government provides and to make all employees more accountable for performing high quality work, we must be prepared to recognize, in a tangible way, those who are doing the kind of job we want everyone to do.

Nowhere is this more important than among the supervisors and middle managers under PMRS.

OPM has recently completed a report evaluating the effectiveness of PMRS up to this point. The findings are quite interesting.

Employees, on the whole, have done better under PMRS than they would have under the General Schedule, receiving 1.25 percent more in basic pay and awards overall. A fourth of the PMRS employees have received larger increases in basic pay than they would have under the General Schedule, while about a tenth have, in fact, received smaller increases. The latter we believe is due to a technical flaw in the design of PMRS. Some 60 percent of PMRS employees receive performance awards, three times the rate of the GS–13 through 15 employees.

Most PMRS employees support the concept of pay-for-performance. But we admit that they remain unconvinced that the system is operating fairly.

Of course, any system that rates performance is going to be viewed differently by those who are rated high and those who are rated low, and PMRS shows this divergence of views.

Much of the employee concern seems to be aimed at the adequacy of performance standards and the fairness of their application, rather than at the way pay results flow from performance ratings. Agencies have expressed concern over how much paperwork is involved in the whole process and how little flexibility the system permits.

While PMRS offers some improvements over the merit pay system that preceded it, many of those who must operate it and who are covered by it remain dissatisfied.

I know that, like OPM, the Subcommittee has sought out opinions on PMRS from a wide variety of sources, and I suspect that you, too, have found very diverse, and even conflicting, responses.

While essentially no one wants to go back to the regular GS schedule for the PMRS population, in fact, we found there is no consensus as to exactly how PMRS should be changed.

As we have considered this problem, we have come to the following conclusions.

First, we would propose extending the existing PMRS for another five years, with OPM making a major assessment of the system after the third year, so that all interested parties will be in a better position to work together and decide what long-term approach to pay for performance is most desirable.

Second, we would propose two relatively minor modifications for the current system while it remains in effect during the five year extension.

With respect to the design flaw I mentioned earlier, we would insure that fully successful performers receive salary advancements which are not less than those received by fully successful performers under the General Schedule.

We also think we should clarify management's responsibility to provide performance improvement plans for any employee whose performance is substandard, and also an employee's responsibility, given such assistance and opportunity, to improve to the fully successful level in order to avoid adverse personnel action.

Third, and this is very important to us, we would propose giving agencies the flexibility to establish, within clearly defined boundaries, alternative approaches to PMRS that would be better suited to the particular needs of the different organizational environments. Such alternative systems, for instance, might use three, rather than five, summary ratings, and use mutually developed statements of work objectives, rather than the more paper-intensive elements and standards of the current system.

Also, greater flexibility could be provided in granting performance awards, although we would envision retaining the current minimum and maximum levels of total payouts.

We believe that this approach—continuing the current system, experimenting with controlled modifications in that system, and thoughtful evaluation of the results—offers us the best opportunity to be in a position a few years from now to reach some consensus on a long-term approach to the issue of pay for performance.

Thank you.

I am available for your questions.

Mr. ACKERMAN. Thank you very much. We appreciate your testimony.

You have outlined some general objectives for the PMRS reform. Will OPM be making a formal legislative proposal for the reauthorization?

Ms. NEWMAN. Yes.

Mr. Chairman, we are in the process now of working toward the exact language of a legislative proposal. The outlines of the proposal that I have shared with you this morning have been presented to OMB and have been approved. We are going through the process of having the personnel directors and others within the administration comment on specific language.

We would, hopefully before you leave for recess, but definitely when you come back from recess, present to you the exact language of a legislative proposal.

Mr. ACKERMAN. Thank you.

In your testimony, you recommend giving agencies flexibility in setting the number of summary rating levels. PMRS currently assigns a full step increase or some portion of a step increase to a rating of fully successful or above.

How would step increases be allocated if agencies are free to establish the number of summary rating levels?

Ms. NEWMAN. Well, the agencies would have to, in determining the system that they use, whether it is three, four or five levels, make that part of their plan to determine that.

Claudia has something she would like to add.

Ms. COOLEY. Thank you.

I just wanted to clarify with regard to the base level movements or the merit increases under our proposal that we would have for the fully successful level, that those merit increases would parallel those that are currently available to the General Schedule employee. In other words, they would be the same for the fully successful level in PMRS that they are for the General Schedule at the fully successful or base level of the system.

We would not provide for any merit increases with ratings below that level.

For ratings above that level, we would have the current progression that is available for outstanding, as the maximum rate under this alternative.

So there would be really a very small amount of flexibility available to agencies to establish that movement within the range, in terms of base pay. There is more flexibility in terms of the performance award piece, but not very much flexibility in terms of the base pay progression, although there is a little bit above the fully successful level.

Mr. ACKERMAN. Thank you.

You also discussed flexibility with regard to performance awards. Would the awards be linked to any of the summary rating levels under the proposal?

Ms. NEWMAN. We certainly expect the awards would be tied to performance. I mean, we are not moving away from awards or merit increases tied to performance. So if that is the question, the answer is yes, it would be tied.

Mr. ACKERMAN. Will there be a direct tie to performance levels—in other words, right now, if somebody is rated outstanding?

Ms. NEWMAN. Under our proposal, we would not mandate it.

Mr. ACKERMAN. You would remove the mandate?

Ms. NEWMAN. That's right. But agencies would be allowed the flexibility, if they so choose. But we are not mandating, in the law under the guidelines of OPM, that there would be a specific level.

Mr. ACKERMAN. If somebody were rated outstanding, what would be the reason for not——

Ms. NEWMAN. Mandating the exact level?

Mr. ACKERMAN. Yes.

Ms. NEWMAN. Well, we would have a floor.

What we are saying is that each agency has a different culture.

Mr. ACKERMAN. But a floor would be mandated?

Ms. NEWMAN. Well, for an outstanding, if an award is given, the amount would not be below 2 percent. But we are not mandating that an award be given.

I think in your proposal you have 5 percent, and we are saying it would not go below 2 percent. But the agencies would have the flexibility of handling where and how they want to require that within that agency environment.

Mr. ACKERMAN. Under H.R. 2886 there is established a 1.5 percent of an agency's PMRS payroll for a bonus pool. What would be the size of the pool under your proposal?

Ms. NEWMAN. We are not recommending a change.

We are still recommending a minimum of 1.125 percent and a maximum of 1.5 percent. We are not altering or recommending altering that percentage.

Mr. ACKERMAN. Did you say 1.125 percent or 1.15 percent?

Ms. NEWMAN. It's 1.15 percent. I'm sorry.

May we give you some information on what agencies are spending right now, because we found that instructive in our determination that this is not an unreasonable position for us to take?

Mr. ACKERMAN. Yes.

[The information referred to follows:]

Agency Spending for PMRS Performance Awards (October 1987 Payout Cycle)

Agency	Performance Awards As A Percent of Agency Payroll
AGRI	1.5%
AID	1.3%
AIR FORCE	1.4%
ARMY	1.3%
COMMERCE	1.5%
DOD(DLA)	1.5%
ED	1.2%
EEOC	1.1%
ENERGY	0.9%
EPA	1.5%
FCC	1.0%
FEMA	1.5%
GSA	1.3%
HHS	1.5%
HUD	1.2%
ICC	1.5%
INTERIOR	1.5%
JUSTICE	1.5%
LABOR	1.5%
NARA	1.5%
NASA	1.4%
NAVY	1.5%
NLRB	1.5%
OPM	1.5%
RRB	1.5%
SBA	1.4%
SEC	1.3%
SMITH	1.5%
STATE	1.5%
TRANS	1.3%
TREASURY	1.5%
USIA	1.5%
VA	1.4%
All 33 Agencies	1.41%

Data Source: Agency Data Submissions

Ms. COOLEY. I just want to mention in terms of the performance award, the ceiling now is 1.5 percent, and most agencies, the average now for most agencies is between 1.4 percent and 1.5 percent. So most agencies are taking full advantage and spending at the 1.5 percent level currently, or close to the 1.5 level.

So we don't really expect that agencies would be spending at the lower end of that, based on our current experience. But we are simply saying that we don't believe a change in the funding level is needed at this time.

Mr. ACKERMAN. H.R. 2886 has no maximum limitation on the size of an individual performance award. What is your basic opinion of whether or not there should be one? If you think there should be one, what should that be?

Ms. NEWMAN. We are recommending a maximum of 20 percent in our proposal, and we do believe that it allows a great deal of flexibility. And yet, given the responsibility that we have to insure that there is not an increasing deficit, we believe we have an obligation to put a cap on that. We have recommended 20 percent.

Mr. ACKERMAN. Under H.R. 2886, there is established a Performance Review Board, or review boards, to select recipients of awards. Do you believe that these boards would be helpful in adding some objectivity to the performance award process?

Ms. NEWMAN. In our proposal, or the way we are thinking about it, the agencies would have the flexibility of establishing performance review boards as advisory boards, not boards that would actually decide the allocation of benefits, or bonuses.

We are concerned that, if we move away from having management have the responsibility for deciding what the ratings should be and the relationship of the ratings to awards, if we move that away from management, we weaken management, plus we weaken the ability of management to be held accountable for their decisions.

So, though we like the idea of some sort of review process as advisory, we would not like to see it moved to a board such as that making the final decision.

Mr. ACKERMAN. Would you see a move in that direction as depoliticizing, to whatever extent that might happen to exist, and also as an initiative to build morale?

Ms. NEWMAN. One problem that I have with peer review, and I will just speak personally, is it places pressures on people serving on those boards to be fair to themselves and to their peers, and often presents another set of problems.

I don't think we are getting criticism that the present system is political per se. We are getting criticism that it is not necessarily fair, and we think that if we have people, individual employees, more involved in the development of the system, involved in the setting of the standards, of the elements, of the work objectives, and better communication between the supervisors and the employees on the ratings, and in the follow-up, that we'll move closer to a system that people are comfortable with and will be accepting, than with the present system.

Mr. ACKERMAN. Thank you.

Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman.

Director Newman, do you have a biography to provide for the committee?

Ms. NEWMAN. Yes.

Mr. MYERS. Mr. Chairman, I ask that it be included in the record.

Ms. NEWMAN. I will have to send it to you.

Mr. ACKERMAN. We would be delighted to include your biography.

Mr. MYERS. We know of you, but I think the country would like to see in the record your accomplishments.

Ms. NEWMAN. Certainly.

[The information referred to follows:]

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

OFFICE OF THE DIRECTOR

CONSTANCE BERRY NEWMAN

Constance Berry Newman was sworn-in as Director of the Office of Personnel Management on June 12, 1989. For more than 20 years she managed public and private organizations. Among her major management positions were: Assistant Secretary of the United States Department of Housing and Urban Development, Director of VISTA, and President of the Newman & Hermanson Company. In that 20 year period she managed more than 5,000 people and total budgets in excess of $160 million. She was also Commissioner and Vice-Chairman of the Consumer Product Safety Commission.

From 1987 to 1988, Ms. Newman worked for the Government of Lesotho as a Cooperative Housing Foundation consultant to a committee established for the purpose of advising the Ministry of Interior regarding the establishment of a housing corporation to receive World Bank funding.

During her public career which began in 1961, Ms. Newman worked in 12 Federal government agencies with three Presidential appointments, two of which were confirmed by the Senate. She began her career as GS-3 clerk typist at the Department of Interior, Bureau of Land Management. For six years, she worked in the Personnel Department of the Bureau dealing with such issues as classification, adverse action appeals, recruitment and placement and training. She continued as a career civil servant until 1969 when she became a political appointee.

Ms. Newman was a Woodrow Wilson Visiting Fellow from 1977 to 1985 and a member of the Adjunct Faculty at the Kennedy School, Harvard University from 1979 to 1982. She has received an Honorary Doctor of Laws from her Alma Mater, Bates College and Amherst College. In addition to receiving an A.B. from Bates College, she received a Bachelor of Science in Law degree from the University of Minnesota Law School, In 1985, she received the Secretary of Defense Medal for Outstanding Public Service. She is a life member of the National Association for the Advancement of Colored People, has served on numerous civic boards and committees.

Mr. MYERS. Evaluating performance and making recommendations for advancement, including pay, has always been a problem in government and out of government. It has always been a problem. How you take the personalities away from it and look absolutely at performance, both from the standpoint of the employee as well as the evaluators, is a difficult problem. I don't know that there is any easy answer.

If you discard some kind of criteria or establish a checklist, there is always an interpretation, an evaluation that we have to make individually. So I think we are always looking for this.

Keeping good people is a difficult problem. I have been around here for a number of years, and it is increasingly more difficult as years go by to keep good people. We see more and more people leave. Pay certainly is part of it, a very important part. But there are other things, too, so-called "perks."

Is there any consideration given as far as giving other awards, such as an extra week's vacation, or preferential parking? There are a number of things that might be added. Was that ever considered in the evaluation of this system?

Ms. NEWMAN. We are going to be looking at a number of options that will allow the system to reward people. We have not specifically looked at whether or not it should be parking or a week off. We are going to be looking at the benefit system. Although that is a separate issue, if we establish a benefit system, that is, a cafeteria plan, there may be some way to override with specific incentives for individuals.

I wanted to back up to something that you said earlier, if you don't mind.

Mr. MYERS. Certainly.

Ms. NEWMAN. One of the problems with the performance appraisal system, not just related to this but across the board, is often standards and the actual ratings are not tied directly to the goals and objectives of the agency itself.

OMB and OPM have been talking recently about trying not in rhetoric but in reality to tie closer to the budget process the process of establishing standards for individual organizational units, which will then govern the standards for individuals.

We believe that to the extent that that happens, people who are very reasonable will understand the rating, because it will be, in fact, tied to what it is the organizations are doing; that when we have a separate system of setting goals, objectives, and budgets for organizations, and then another system for rating individuals and there is no bridge across, we have people believing that it is not realistic.

So, to the extent that we can do that—the private sector has a little easier time doing it because they are measuring the bottom line in dollars—the closer we come to that, we believe the greater the potential of having acceptance of the performance appraisal system.

Mr. MYERS. We have run into that through the years. I know every time there is a pay increase, either for Civil Service employees, or especially Members of Congress, all hell breaks loose, which we saw the last time last winter.

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There has been a suggestion that maybe Members of Congress be paid only when we balance the budget, somewhere along the lines that you are talking about. But I don't know whether people will wait that long or not for a pay increase. [General laughter.]

Nevertheless, that is one criteria that we certainly could use. I don't know how we are ever going to get there, because regardless of by what pay you increase Federal employees, there are going to be those objectors out there. Ralph Nader will be on the soap box someplace yelling if we get paid a nickel more. I notice that he has been charging a lot more in recent years than back when I first knew him 24 years ago. I don't think he is worth any more, but he is still charging more.

I have a minimum regard for him, in case you have not noticed. Of course, it is mutual, too. He has been in my district a number of times, especially around election time he comes around. But that is neither here nor there.

I notice that the bill only provides for GM–13, 14, and 15s. Why do we just hold it to those three grades? Why can't we expand it in the next five years?

Ms. NEWMAN. I guess I would say that we are sufficiently uncomfortable with the way in which the system is now operating. We do believe that before we expand, we need to fix it for the GM–13 through 15. We want pay-for-performance, and I think I can say that the Administration is very interested in pay-for-performance across the board.

But it would not make sense for us to move to that until we know that this one area in which we have attempted it is, in fact, working well.

Mr. MYERS. After five years, you don't think we know yet?

Ms. NEWMAN. Well, we know some things. We know, for example, that it makes sense now to move to greater flexibility, depending upon the culture. We know that it is true that there is inflation in ratings. So we need to spend more time in training supervisors. We need to hold supervisors more accountable for what it is they do.

So five years is not a wasted period of time. We do know many things.

Mr. MYERS. Oh, I am not suggesting that.

Ms. NEWMAN. But we still actually do not believe that we are quite ready to move to a broader system.

It may be if our proposal of an assessment in three years gives us much more information, we may be ready, after that three year mark, to suggest an expansion. But we don't believe we are at this time.

Mr. MYERS. One of the three suggestions that you make of improving the system and recommendations is that at the end of three years, OPM would make an assessment.

What would happen to that assessment? Where would it be sent and who would have the responsibility of making any changes that might be recommended to that assessment?

Ms. NEWMAN. Well, we would expect that if our proposal passes, the assessment would be required to be presented to the President and to Congress, and to the public. We would use it in any alterations that we need in the system.

Mr. MYERS. Then there would be a continuing assessment during the first three years?

Ms. NEWMAN. Yes, definitely.

Mr. MYERS. But it would just be one report at the end of the third year? Should we not make one at the end of the first year and one at the end of the second?

Ms. NEWMAN. Well, right now, we have a requirement that we give an annual report, and we would continue to give an annual report. But the assessment would be an evaluation of the flexibility that we had put into the program.

Mr. MYERS. Then any changes would have to be made by Congress?

Ms. NEWMAN. Absolutely.

Mr. MYERS. Okay.

I have a couple of other questions that I will put into the record, Mr. Chairman.

Thank you very much, and welcome again to the Committee. We are happy you are here and I know you will do a good job. Good luck to you.

Ms. NEWMAN. Thank you.

Mr. ACKERMAN. Thank you.

Ms. Morella.

Ms. MORELLA. Thank you.

Again, welcome to the Committee. We look forward to your continued, very thoughtful comments and honesty in responding.

When the President came out with his pay proposal and he talked about merit pay, and you alluded to it in responding to Mr. Myers, you said that you thought this was a great idea to have the merit factor, performance factor, built into it.

A number of organizations that are involved with Federal employees who would be in those categories had some concerns and skepticism about how effective that would be. Would you, for a moment, elaborate on why you think it can be worked out and that it should be part of a pay proposal?

Ms. NEWMAN. I appeared before the Senior Executives Association on this issue, and, honestly, we had about two hours of lively give and take.

Ms. MORELLA. Yes, I want to ask you about that.

Ms. NEWMAN. But what I think is the case is if we involve the people in the process, in developing the recertification process, and if we involve the Senior Executive Service, which is mainly what we are talking about in this pay proposal, in developing a comfort level with the performance appraisal process, and recognizing that the recertification was contemplated as a different process, but tied to the appraisal process, I think we will get more acceptance of the fact that it is fair to have the public expect that in exchange, really, for additional pay, there is an additional confidence that the people who are in the system are the elite and are performing at an outstanding level.

I think the more we talk about it, the more we agree that the Senior Executive Service members will be involved in establishing that process, I think the more we are getting acceptance. There has always been the concept of pay-for-performance with the Senior Executive Service, and now we are just taking it one step further by

saying every three years there has to be some statement that you are still qualified to stay in this elite corps.

Ms. MORELLA. In other words, we are really calling attention to it, to help to build public confidence in something that we expect happens anyway. In other words, high performance we would expect would be there, and I guess the concern is unless you can work very well with the various groups, the skepticism about how personality enters it and how it can be used will be there. In some of the comments that we will hear subsequent to your statement, there is a question about performance in the system that we now have, performance truly being measured. There is a reference to the fact that other factors seem to be those that are measured or looked at, rather than performance.

Is there some way that we can be assured if we continue even for a year with the system that we can look at these criteria in order to factor in what their concerns are, to make sure that it is more performance based, more of a true performance base?

Ms. NEWMAN. We are going to have to do a number of things, and we recognize this.

We are going to have to share what we know widely with the people who are affected by the system—the supervisors, particularly the supervisors—and get feedback on what it is they need in technical assistance and training in order to better appraise their employees.

We are going to have to communicate better with the employees generally about how the system in fact is working.

There are a lot of assumptions that it is not working well, while as a matter of fact, as I said in my testimony, people are faring better in terms of dollars in the GM system than in the GS system.

So there is something we are not saying about how the system works.

I think, Claudia, you had something you wanted to add about some of the things we might do based on our studies to better improve the way in which the system does work.

Ms. COOLEY. First of all, let me mention that we do think a big piece of the perceived inequity comes from this problem about how fully successful performers under this system fare versus the General Schedule.

We have proposed—and this is something that is in Congressman Ackerman's proposal, too, the Chairman's proposal—fixing that problem, so that fully successful employees, whether they are in the General Schedule system or in the PMRS system, will be treated the same way, so they won't perceive that, even though they have a fully successful rating, that they are somehow doing less well than their counterparts, who do not have managerial responsibilities.

In addition to that, we think we have a lot of work to do—continued work, as anyone who deals with performance management knows—in working to get managers to take the time and invest what is needed to do performance appraisal well, we need to train them and to provide the technical assistance to them to do this.

But we also think that, by giving agencies some flexibility in the system, as Mrs. Newman mentioned, if we have employees who are covered by the system involved in designing those systems, they

will understand those systems better and they will feel ownership in those systems, and be stakeholders in the systems that they themselves have had a role in designing.

So we think that if we can take that approach and give agencies some more leeway here, this involvement will also help.

Frankly, in doing our reviews and surveys and talking to PMRS employees and groups of employees, we have learned that there are many who really do not understand how the current system operates. I think there is a lot of misunderstanding out there. This is not to say that once everyone understands it, they will like it. But I think that that is certainly the first basis for building trust in the system and at least understanding how it operates. We can do a lot more to deal with this question of perceived inequity in the way the awards and the process works.

Ms. NEWMAN. And we would feel that it would be OPM's responsibility to educate the population more about the system. We are now finding out that people don't know enough about it. We are not going to leave it to everybody else to straighten it out. It would be OPM's responsibility.

Ms. MORELLA. It is a difficult task and I wish you well.

How about the reauthorization bill. There is some wording there which says that the agency managers would provide assistance to those people who perform below the fully successful level, so that they can get reassignment and move on, to be eligible and receive the increase subsequently.

Is that something that you agree with and that you are proposing?

Ms. NEWMAN. Yes.

We are proposing that that go into effect even in the first year, before we move to the flexible system, and continue throughout. We believe that that is very necessary.

Ms. MORELLA. Is that done now?

Ms. NEWMAN. Well, it is not mandated by law, but it is by regulation. We want to insure that, in fact, it happens by putting it into the law.

Ms. MORELLA. I am just wondering whether or not there is a follow-through in terms of those, then, who have been counseled and assisted for better performance. How they did fare subsequent to that? But I guess we don't have those figures.

But we would have?

Ms. NEWMAN. Yes.

Once we moved to this, we would have to have them.

Ms. COOLEY. We have done some reviews nationwide of how agencies deal with people who are performing below the fully successful level. We did not break it out for this particular group. But in those reviews, we have seen that agencies do have quite a bit of success when they set up improvement plans and work with employees to bring their performance back up to the fully successful level.

So we do know that there is a lot of success out there when managers do work with employees to bring them back to the fully successful level.

Ms. MORELLA. Finally, the bill before us would replace the five tiered system with three tiers. I think you would agree that a suggestion will be made to make it a two-tiered system.

Do you want to respond to that?

Ms. NEWMAN. Yes.

First of all, our proposal is of three to five tiers. It would be up to the agencies to decide.

As far as the two-tiered system, we have concerns that that moves us too far away from pay for performance, that we need to have some gradations, and that if we go to just a pass/fail, we are not necessarily tying pay to performance. So we are suggesting that agencies use a three to five tiered system.

Ms. MORELLA. So it would be optional.

I thank you very much.

I thank you, Mr. Chairman.

We have now been joined by our Ranking Member on our side.

Mr. ACKERMAN. I thank you very much, Ms. Morella.

The Chair is delighted to note the attendance and participation of Mr. Gilman, a colleague and a dear friend from New York.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. ACKERMAN. He sits with us not just by virtue of his official status as the ranking minority member on the full committee who, therefore, has a right to sit ex-officio, but I think this is one of the first times our subcommittee, since I have been chairing it, has had somebody sit ex officio with us. So we are doubly, triply, honored to have you.

It may skewer your sense of arithmetic or mathematics to try to figure out how the majority has one person and how the minority has three people. I never did understand those things. [General laughter.]

Certainly the great degree of cooperation that we have on this, as we do on all issues before our subcommittee, is duly noted, and the cooperation and participation of the full minority is very welcomed by this committee. Otherwise, it would be really lonely around here.

Mr. Gilman.

Mr. GILMAN. Thank you for your kind words, Mr. Chairman. I hope I can sit in on other meetings with this distinguished subcommittee. You do such good work.

I want to welcome our distinguished panelists before this committee.

I have some opening remarks, but I will submit them for the record.

[The statement of Mr. Gilman follows:]

STATEMENT OF HON. BENJAMIN A. GILMAN

Mr. Chairman, the issue before us today is pertinent to the proper working of the Federal Government. The reauthorization and reform of the Performance Management and Recognition System (PMRS) must be enacted as it is scheduled to sunset in September of this year.

It seems apparent from various studies that have been conducted that the system, though well intended, is not functioning in the way that Congress had envisioned. Though nearly seventy percent of the employees who are covered by PMRS are rated in the two highest levels of performance (out of a possible five levels), the feel-

ing of employees is that the system is unfair and the amount of the bonuses are so small as to be meaningless.

Your bill, Mr. Chairman, addresses many of the concerns which need to be improved. The present system has been in existence for five years, and your bill extends the provisions—with certain amendments—through 1995. We have certainly learned from past experience and I hope that we will consider changes if and when the need occurs.

We do need flexibility to make changes and I commend you, Mr. Chairman, for taking the lead in making positive modifications to the performance management and recognition system. I am pleased that the reform includes a provision that all employees receiving a "fully satisfactory" rating or better under PMRS should receive at least as much of a merit increase as they would if they were under the general schedule pay system. This is equity.

I look forward to working with you and this subcommittee towards an agreement on the relationship between rating and merit increases, and the process and amounts for bonuses.

Thank you, Mr. Chairman, for this opportunity to share my thoughts with you.

Mr. GILMAN. I would like to ask a question or two if I might, Mr. Chairman.

Mr. ACKERMAN. Please.

Mr. GILMAN. Mrs. Newman, has someone made a study at which GM level there is the highest evaluation, which one receives the highest evaluation, the most bonuses? Is there any study, for example, of Schedule C employees, who receive the PMRS bonuses? Do we have any of that information?

Ms. NEWMAN. Yes, we do. Let me make a comment about the Schedule C, and then I will back up.

Schedule C represents less than 5 percent of the 140,000 GM employees.

[Pause.]

Ms. NEWMAN. I need to correct myself. It is not even as high as I thought. It is only about 500. So it is much less than 1 percent.

We have not, in fact, separated out the Schedule C, given the very small numbers.

The other thing is we have not really received any complaints that this is a problem. So there is no reason for us that we saw previously to make a comparison based on that.

We do have information on percentages of employees by agencies receiving performance awards and merit increases, and we would be happy to submit for the record some of the summary information. It is probably the best way for us to do that.

Mr. GILMAN. We would welcome having that information, and I would hope that you could submit it.

[The information referred to follows:]

PMRS EMPLOYEES RECEIVING PMRS PERFORMANCE AWARDS AND MERIT INCREASES

Agency	Total Number of Employees Receiving Both A Merit Increase (Includes Step 10) and a PMRS Award	Total Number of Employees With Valid Ratings and Salaries	Percent of All Employees Receiving Both a Merit Increase and a PMRS Performance Award (Includes Step 10 Employees with Awards)
ACTION	85	101	84.16%
Admin Conference US	2	2	100.00%
Adv Comm Fed Pay	1	1	100.00%
Agriculture	6,902	9,749	70.80%
AID	175	244	71.72%
Air Force	1,620	9,834	16.47%
Amer Battle Monuments	1	1	100.00%
Arch Barriers	3	5	60.00%
Archive & Rec Svc	192	238	80.67%
Arms Ctrl Disarm	5	8	62.50%
Army	6,800	15,351	44.30%
CFTC	20	99	20.20%
Civil Rights	1	11	9.09%
Com Purchase Blind	3	3	100.00%
Comm Employ Hndcp	10	10	100.00%
Comm Fine Arts	0	1	0.00%
Commerce	2,979	3,736	79.74%
CPSC	48	85	56.47%
Education	673	907	74.20%
EEOC	230	426	53.99%
Energy	1,942	3,071	63.24%
EPA	1,753	2,453	71.46%
Exec Off President	10	15	66.67%
Ex-Im Bank	46	46	100.00%
Farm Credit Adm	5	57	8.77%
FCC	177	266	66.54%
Fed Election Comm	2	35	5.71%
Fed Ret Thrift Bd	4	4	100.00%
FEMA	246	315	78.10%
FHLBB	70	163	42.94%
FLRA	33	39	84.62%
Fed Maritime Comm	3	29	10.34%

PMRS EMPLOYEES RECEIVING PMRS PERFORMANCE AWARDS AND MERIT INCREASES

Agency	Total Number of Employees Receiving Both A Merit Increase (Includes Step 10) and a PMRS Award	Total Number of Employees With Valid Ratings and Salaries	Percent of All Employees Receiving Both a Merit Increase and a PMRS Performance Award (Includes Step 10 Employees with Awards)
Fed Med Concil Svc	11	19	57.89%
FTC	182	453	40.18%
GSA	1,227	1,671	73.43%
HHS	6,236	8,321	74.94%
Historic Preservation	1	2	50.00%
Holocaust Memorial	0	3	0.00%
HUD	1,193	1,619	73.69%
ICC	101	108	93.52%
Interior	3,534	4,854	72.81%
ITC	19	35	54.29%
Japan US Frndshp	0	1	0.00%
Justice	3,472	4,104	84.60%
Labor	1,740	2,540	68.50%
Marine Mammal Comm	1	1	100.00%
MSPB	38	58	65.52%
NASA	2,834	3,318	85.41%
Nat Cap Pln Comm	10	14	71.43%
Nat Fnd Arts Hum	88	124	70.97%
Nat Mediation Bd	5	9	55.56%
Nat Tran Safety Bd	16	39	41.03%
National Guard	954	1,119	85.25%
Navy	13,027	21,120	61.68%
NCUA	80	131	61.07%
NLRB	292	353	82.72%
NSF	56	73	76.71%
Occ Info Coord Comm	3	3	100.00%
OPM	354	471	75.16%
OSHRC	9	9	100.00%
Other Defense	3,722	6,577	56.59%
Penn Ave Devpmt	10	10	100.00%
Pension Benefit	67	93	72.04%
RR Retirement	108	145	74.48%

PMRS EMPLOYEES RECEIVING PMRS PERFORMANCE AWARDS AND MERIT INCREASES

Agency	Total Number of Employees Receiving Both A Merit Increase (Includes Step 10) and a PMRS Award	Total Number of Employees With Valid Ratings and Salaries	Percent of All Employees Receiving Both a Merit Increase and a PMRS Performance Award (Includes Step 10 Employees with Awards)
SBA	374	638	58.62%
SEC	342	470	72.77%
Selective Svc	21	29	72.41%
Smithsonian	266	346	76.88%
Soldier Airmen Home	11	12	91.67%
State	538	719	74.83%
Transportation	5,636	9,254	60.90%
Treasury	5,045	10,042	50.24%
USIA	460	590	77.97%
Veterans Admin	2,948	4,582	64.34%
ALL AGENCIES *	79,072	131,384	60.18%

Notes: Employees who are already receiving the maximum rate of pay for their grade (Step 10 rate) cannot receive a merit increase. Step 10 employees who received a PMRS Performance Award are included as if they had received a merit increase which they would have if their salaries were not already at the maximum level.

Data excludes 6,500 employees with invalid reported merit increases or missing salary data.

Data Source: Performance Management Information System as of October 1988 updated with information submitted by agencies through March 1989.

Mr. GILMAN. At some other hearings, we have had testimony that the private sector provides bonuses for at least 90 percent of their workforce, in large or small bonuses as the event warrants.

What is the possibility of such a program being instituted in the Federal sector?

Is it possible that the top manager can have discretionary funds to award at the time of some outstanding performance?

Ms. NEWMAN. Well, I guess the easiest way for me to think about this is to say that often, when we think about the moneys going to PMRS employees, the general managers, we do not look at the four categories in which they receive increases of their base pay.

There is the general increase, the merit increase, the performance award, and also the potential for incentive awards. But my reason for raising that is when the private sector talks about the 90 percent, they are looking at something similar to all four categories combined.

If we look at all four categories, already a very high percentage of people receives some type of award. We do need to look at special incentives for those above and beyond the incentive awards we now have. I think about 9 percent of the general managers are receiving incentive awards. That may be good; it may not be.

It may be that the amount of those awards—I think they are now a little over $1,000 on average—it may be that there will be greater incentive if we make those higher. It is worth our looking into.

But we wanted to be sure that somewhere in the record we explain that the private sector's experience is not that foreign, if you use all four categories of pay increases available to PMRS general managers.

Mr. GILMAN. Is there some discretion now that a general manager can be given a bonus for something outstanding that he accomplished right at that time, without going through a lot of red tape?

Ms. NEWMAN. On the spot?

Mr. GILMAN. Yes.

Ms. NEWMAN. On the spot is not available to general managers right now, I don't think.

There is a $25 award that can be granted on the spot. But are you talking about something bigger than that?

Mr. GILMAN. Yes.

Ms. NEWMAN. We would have to look into that because the incentive award program requires much more time.

Did you have an example?

Mr. GILMAN. If there is a possibility of instituting that in the Federal sector, I would welcome your thoughts on that along the way.

[The information referred to follows:]

Many Federal agencies currently use some form of "On-the-Spot" awards program which provides immediate recognition of a short term project or assignment performed in an exemplary manner. Typically these awards range from $25 to $250. While most are monetary, two systems that we are aware of are honorary in nature.

The Department of Commerce's "On-the-Spot" awards program provides employees with a number of items suitable for use in an office setting. Another "spot" award at the VA Medical Center in Big Spring, Texas called "Caught in the Act," provides employees with a coffee cup and pen with the VA Logo.

While OPM has not yet issued formal guidance on these systems, we've provided coverage of these special awards in annual report summaries and through our bi-monthly newsletter, *Incentive Awards Notes.*

The following are some of the "spot" cash awards within agencies:

Defense Mapping Agency—ASAP Award (Accomplished Skillfully and Promptly)—includes a certificate and between $50 to $250—all employees are eligible.

Commodity Futures Trading Commission—STAR Award (Special Thanks Achievement Reward)—all employees except SES are eligible—$150.

GSA—Fast Track Award—all employees are eligible—$50 to $150.

Immigration & Naturalization Service—Spot Awards—Average $200 (SES are not eligible).

IRS (a number of their District Offices)—Employee Recognition Award—$100.

OPM—Spot Cash Award—(GM and SES are not eligible)—$25.

Energy—Bonneville Power Administration—"On-the-Spot" awards (all employees except SES)—Average award $75.

Army—On-the-Spot award—$25-$250.

Mr. GILMAN. Just one other question.

Do you feel that the aggregate size of the bonus pool is adequate for meaningful bonuses? Do you think we have a sufficient size for that?

Ms. NEWMAN. We believe that it is adequate.

Ms. Cooley and I were talking in the car coming over here about how that is being allocated now, and I would ask her to share that with you. It is very interesting.

Ms. COOLEY. The limitation that we have now at the top is 1.5 percent of payroll for performance awards for this group of employees. As I mentioned earlier, I believe before you were here, most agencies are spending right about at that level.

Now, the 1.5 percent, people say, well, that's not very much money, and we do not think that is a particularly rich amount, either. But I do think it is important to put it in the context of the total amounts.

It is only the performance award piece that is limited to 1.5 percent. There is no budget limitation on the base pay merit increases. It is important to remember that people covered in this system every year get the General Schedule increase. They also get whatever they are supposed to get under the merit pay or base pay progression. That progression, for the top performers in PMRS, is faster than it is for people under the General Schedule and faster than for people who are rated fully successful.

Then, on top of that are the performance awards. Then on top of that there may be an incentive award.

I would like to provide just one example, and that is in the last year, the average PMRS employee, who was rated outstanding—and there were over 25 percent of employees that were rated outstanding—that individual, on average, received a 3 percent merit increase in base pay, a 4.1 percent general increase in base pay, and a 3 percent performance award.

Now, that adds up to over 10 percent, or more than $5,000 per employee on average, for those that had outstanding ratings.

So, a 10 percent average change in income in one year—and that does not count promotions, either—is something that we think is significant.

Again, as Mrs. Newman mentioned earlier, when we talk about the way we deal with this, versus the private sector, when the private sector talks about the amount of money they put into merit

pay, they do not have the entitlements that are in our system for the General Schedule increase and for the within-grade pay progression. So they put all of that money into the pool.

If you add all of that money into our pool, we really have quite a significant amount of money that is allocated every year to this population.

So, while we do not think the 1.5 percent is particularly rich, given the budget situation that we are in and given our experience with this, we think that substantial monetary awards for superior performance are possible within that ceiling limitation.

Mr. GILMAN. Just one followup question.

How many employees would have received those awards that you just outlined, the aggregate of the performance, merit, and all of the other awards? How many employees would have received that package?

Ms. COOLEY. Well, we know that the ones that get over 10 percent are at least 25 percent of this population, of the grades 13 to 15 that are covered under PMRS.

Mr. GILMAN. I am talking about the complete package. You said there were some who had received that whole package of awards—$5,000 or whatever it amounted to.

Ms. COOLEY. Right, $5,000 was the amount that 25 percent of the PMRS population was entitled to receive.

Mr. GILMAN. I am talking about now the total package of all of the awards you just recited.

Ms. NEWMAN. It would be 25 percent. The cumulative amount would be 25 percent.

We can come back to you with the exact number.

[The information referred to follows:]

A total of 33,688 employees (26 percent of all GM 13-15 employees rated for the October 1988 performance cycle) were rated outstanding. On average, they received a 3 percent merit increase to base pay and a 3 percent performance award in the fall of 1988 and 4.1 percent general increase in base pay in January 1989, for an average of more than $5,000 per empoloyee.

Mr. GILMAN. You just recited that an employee could earn a number of awards.

Ms. NEWMAN. Right.

Mr. GILMAN. How many employees earn that total package of awards?

Ms. COOLEY. It would be 25 percent of 140,000.

Mr. GILMAN. Earned all four or five awards?

Ms. COOLEY. All three categories. They got a General Schedule increase, they got an increase in their base pay because of the merit increase progression within the steps, and then they got a performance award on top of that.

Mr. GILMAN. So 25 percent of all of the people?

Ms. NEWMAN. Of 140,000. Yes.

Ms. COOLEY. They received all of those.

Mr. GILMAN. That happened last year?

Ms. COOLEY. Yes.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman.

Mr. ACKERMAN. We were just going over that math. I suppose we could include those figures for the record. But it is roughly 35,000

employees that would be getting an increase of 10.1 percent under the numbers that you cited, 10.1 percent of each of their individual pay levels.

Ms. NEWMAN. On average, and 60 percent would be getting the general plus the merit.

Ms. COOLEY. Plus performance.

Ms. NEWMAN. Plus performance awards.

What we probably ought to do is give you a chart of how many would get the total package, how many would get the general plus the merit increases, plus the performance award.

Mr. ACKERMAN. Okay.

[The information referred to follows:]

SUMMARY OF TOTAL PAYMENTS TO ALL GM 13-15 EMPLOYEES BY RATING LEVEL

	Rating Level				
	Unsatisfactory	Minimally Satisfactory	Fully Successful	Exceeds Fully Successful	Outstanding
Merit Increase	0.00%	0.00%	1.60%	1.88%	2.95%
General Increase	0.00%	2.05%	4.10%	4.10%	4.10%
PMRS Performance Award	0.00%	0.00%	0.14%	1.21%	2.85%
PMRS Cash Award	0.00%	0.00%	0.15%	0.16%	0.18%
Total Payments Over Base	0.00%	2.05%	6.00%	7.35%	10.09%
Number of Rated Employees	112	344	33,031	62,170	33,688
Percent of All Rated Employees (130,000)	0.1%	0.3%	25.5%	48.1%	26.0%
Percent of Rated Employees Who Received Both A Merit Increase and a PMRS Performance Award -- 60% of All Rated Employees (See Note)	0.0%	0.0%	12.6%	66.4%	98.8%

Notes:

Includes employees who are already receiving the maximum rate of pay for their grade and cannot receive a merit increase. Outstanding employees do not total to 100% as recently promoted or appointed employees are not eligible for merit increases.

If a Performance Award was not reported for an Outstanding employee, the Government-wide average award for Outstanding employees (2.8%) was used to compute an award for that employee.

Mr. ACKERMAN. If there are no further questions, we want to thank you for your premier performance before the subcommittee. You pass with flying colors.

We welcome you once again to your new position and look forward with great hopes for continuing the kind of relationship that we have had in recent years under your immediate past predecessor in that job, and look forward to working with you on behalf of our Federal workforce.

Thank you very much.

Ms. NEWMAN. Thank you.

Mr. ACKERMAN. The next witness will be Mr. Bernard L. Ungar, Director of Federal Human Resource Management Issues of the General Government Division of the General Accounting Office.

Mr. Ungar, welcome to our subcommittee. I understand we will be welcoming you on another issue next week. So this is a warmup exercise for you.

You are most welcome to be with us and you can proceed as you will, as soon as you introduce your associates to us.

STATEMENT OF BERNARD L. UNGAR, DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY NORMAN STUBENHOFER, ASSISTANT DIRECTOR, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE, AND WILLIAM REINSBERG, EVALUATOR, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. UNGAR. Thank you, Mr. Chairman.

I am accompanied today by Mr. Norm Stubenhofer, on my right, who is an Assistant Director in our Federal Human Resource Management Group, and Mr. Bill Reinsberg, who is an Evaluator in that group and also the Project Manager on our assignment for the PMRS program.

If it is okay with you, I would like to summarize my statement this morning, since you have it for the record.

Mr. ACKERMAN. Without objection, your entire statement, as presented, will be placed in the record, and you may proceed in summary.

Mr. UNGAR. Thank you, Mr. Chairman and Members.

Our findings in our review of PMRS are not substantially different from the findings of OPM and the other groups who have looked at the program recently. Interestingly enough, the results are somewhat perplexing in that, while the majority of employees overall receive more money under PMRS, there is a lot of concern about the program and certainly the general perception that the program is not meeting its objectives well to reward and motivate employees.

Some of the concerns that participants have are that the awards are too small to motivate or to reward employees for good performance. Performance is not viewed as the major actor behind the awards in many cases.

The awards and the rating processes are not always viewed as equitable, and, as OPM has stated, there is a group of employees in the GM category who earn a fully successful or satisfactory rating,

who are not paid the same amount as their counterparts in the GS system. This creates an inequity.

We see that the Congress has a number of options to deal with or address PMRS. One, obviously, is to do nothing and let the program lapse. We don't see that as a viable option for a number of reasons.

Number one, most Federal employees seem to support the notion of pay for performance, and there is no indication, of course, that the concerns that are with the program cannot be fixed, and also if the program lapses, there would be a substantial amount of work that would have to be done to go back and put all of the employees back into the GS system.

As a minimum, we think that the program ought to be extended, and, as a minimum, the problem with the fully successful people not receiving as much as their GS counterparts ought to be fixed.

Over the longer term, we feel the subcommittee and Congress have a number of options. One option would be to come up with a set of solutions that would uniformly apply to all agencies, somewhat similar to the approach taken in the subcommittee's bill. The other option is, as OPM suggests, to give agencies some flexibility within a framework that would be set up in the legislation, so that the agencies could presumably design their own systems.

In terms of the subcommittee's specific proposals, we have a number of observations that we would like to offer briefly.

We think that the lead-time the bill provides is absolutely essential, which the agencies would have to have if there are going to be some major changes in the system. We found earlier that there was not enough lead-time when PMRS was first implemented, and that created a lot of difficulty.

We also feel that the allowance for a more substantial award would be a beneficial change that would help the program.

Some of the areas of concern deal with the Performance Review Board proposal, with respect to the composition and authority of the board.

One concern with respect to composition that we have is that it is possible that none of the members of the board or boards that would be established would have knowledge of the employees' performance that they are rating. We feel this could lead to concerns or perceptions about inequity or not being fair, some of the same concerns that employees have today with the program.

Also, as OPM also mentioned, we are concerned that the authority of the board would be to make the award decision, which would take this out of the hands of the manager. The subcommittee might want to revisit that particular issue, as OPM suggests be done.

Finally, in terms of the bill, with the coupling of a reduction in the rating levels from five to three, along with a mandatory merit increase requirement, we see that the government could possibly face a substantial increase in costs. If a number of the employees who are currently rated in the fourth level—between fully successful and the highest rating level—are rated at the highest level under the proposal, a number of employees would have to get merit increases over and above those that currently get them. That could run into millions of dollars in extra cost.

So we would suggest that you might want to look at that proposal again before it is adopted, to get a handle on the specific costs and whether that would be a preferred route to take.

With that, I would like to be available for any questions that you might have.

[The statement of Mr. Ungar follows:]

Statement of
Bernard L. Ungar, Director
Federal Human Resource Management Issues
General Government Division

We are pleased to be here today to assist the Subcommittee in considering changes to the government's pay-for-performance system for its GM 13 through 15 managers and supervisors--the Performance Management and Recognition System (PMRS).

PMRS was enacted in November 1984 to correct the problems experienced under the merit pay system that preceded it. We reviewed PMRS shortly after it was established and we recently completed a study to determine whether the problems identified in our earlier report had continued.[1] PMRS participants and the SES members with whom we spoke during our most recent review raised most of the fundamental problems identified in our earlier report. While our most recent review had a limited scope, the Office of Personnel Management, the Professional Managers Association, and other organizations have recently reported on PMRS and identified similar problems.

In general, PMRS is not viewed as fully meeting its objectives to motivate and reward employees. PMRS' shortcomings have been viewed the following way:

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[1]PAY FOR PERFORMANCE: Implementation of the Performance Management and Recognition System (GAO/GGD-87-28, Jan. 21, 1987), and PAY FOR PERFORMANCE: Interim Report on the Performance Management and Recognition System (GAO/GGD-89-69BR, May 18, 1989).

-- Performance is not a major factor in determining who received performance awards;

-- Awards are too small to motivate employees;

-- Performance ratings and awards are inequitable; and

-- Employees who are rated as fully successful and are in the middle third of their pay range receive the equivalent of one-third of a step increase, whereas similarly situated general schedule employees receive one-half of an increase. Thus, PMRS employees in this category have been paid less than their general schedule counterparts.

No performance system is perfect and to the extent that predictability and comfort are key factors in such systems for many employees, their judgments about the system will often be somewhat critical. Consequently, we cannot expect performance systems to satisfy everyone. That is the case with PMRS. Nevertheless, some changes can improve it.

OPTIONS FOR THE FUTURE OF PMRS

The legislation authorizing PMRS expires on September 30, 1989, and there are three legislative options that could be considered.

One option is to allow the program to expire. Another option is to reauthorize the program as it is presently, but fix the inequity for fully successful employees in the middle third of their pay range. A third option is to reauthorize PMRS, fixing as many of its shortcomings as possible.

We do not believe that allowing the program to expire is viable for two reasons: (1) many federal employees support the concept of pay for performance, and (2) the cost of converting all PMRS employees back to the general schedule system would be significant. At a minimum, we believe PMRS should be extended now for a short period and that the inequity affecting certain fully successful employees should be removed. This inequity has persisted throughout the program and has resulted in these employees being paid less than their general schedule counterparts.

There seems to be little controversy over the need to fix the inequity as well as other problems with PMRS. The Subcommittee could use various approaches to deal with these other problems over a longer time period. One approach would be to address them by developing solutions that would uniformly apply to all agencies, such as those proposed in the Subcommittee's bill. Another approach would be to develop a general legislative framework within which agencies would have flexibility to design their own solutions. This approach might be particularly

attractive if agencies participating in PMRS cannot agree on how to change the program.

The Subcommittee's bill to reauthorize PMRS extends the program with minor modifications for 1 year before more significant changes take effect. The longer-term changes that are to take effect include (1) relaxing some limits on performance award funding and removing the requirement that all employees rated at the highest level receive an award; (2) reducing the number of rating levels from five to three; (3) restructuring base pay increases by changing the manner in which merit or step increases are granted; and (4) eliminating the direct link between ratings and performance awards by establishing Performance Review Boards to make performance award decisions.

We support the concept of extending PMRS to allow OPM and the agencies sufficient time to prepare for major changes and view the changes affecting performance award funding as a positive attempt toward making performance awards more meaningful. However, we do have some concerns. We believe that the composition and authority of the proposed Performance Review Boards should be given additional consideration. We also think that the combination of both the full merit increases for top-rated employees and the rating level reduction could significantly increase personnel costs.

I will elaborate further on these matters later in my testimony.

THE LEAD TIME PROVIDED BY THE
BILL SHOULD HELP AVOID
IMPLEMENTATION PROBLEMS

In reviewing the implementation of PMRS, we found that the lack of preparation time preceding the system's effective date caused administrative difficulties for OPM and the agencies. These difficulties included inadequate time to train and inform employees about the new system, delays in performance award payments, and untimely, unclear guidance from OPM.

The bill provides for fixing the inequity that currently exists for certain fully successful PMRS employees and otherwise extending PMRS as is through fiscal year 1990. This approach should help alleviate implementation problems by allowing agencies and OPM sufficient lead time to prepare for the major changes to the system that will take place in later years. We suggest, however, that the Subcommittee consider extending PMRS through separate legislation if consensus on solutions cannot be reached.

CHANGES AFFECTING THE POTENTIAL SIZE OF PERFORMANCE AWARDS

Our previous work indicated that PMRS employees felt that the size of performance awards neither adequately rewarded them for outstanding performance, nor motivated them to perform better. Legislative limitations in effect since PMRS began might have contributed to the small performance awards made to some PMRS employees. These limitations require agencies (1) to make awards of at least 2 percent of base salary to all their outstanding employees and (2) to also remain within established limits on total performance award expenditures.

The bill changes four key aspects of PMRS that affect the size of individual awards. It raises the minimum amount that can be awarded to an individual to 5 percent of base salary, eliminates mandatory awards for employees rated at the highest level, and removes the limitations on agencies' total performance award expenditures. In addition, the bill eliminates the current limitation on the dollar amount of individual performance awards. While we have no basis for saying whether the most appropriate minimum award amount should be 5 percent or some other percentage of base pay, we do think these changes should enable agencies to make larger awards. In fact, since the bill eliminates the limitation on the amount of individual performance awards, an

inordinately large award could be made to one employee. Although this is unlikely, we are suggesting that consideration be given to reinstating a maximum amount that can be awarded to an individual.

PERFORMANCE REVIEW BOARDS

The bill creates Performance Review Boards that will select employees to receive performance awards from those who are nominated by their supervisors. It also provides that at least three of the five board members must be PMRS employees.

The boards represent an attempt to deal with the complaints about favoritism that have persisted during the operation of PMRS. However, some PMRS employees we spoke with during our most recent review were concerned that board members would not have direct knowledge of individual job performance, and that, as a result, board decisions would be based on factors other than performance. They felt that award decisions were better left to immediate supervisors because they know more about employees' performance. If a board helps decide awards, we believe its members must be familiar with employees' performance. However, we recognize that no system is likely to receive the approval of all employees.

The majority of each board would be PMRS employees. A potential conflict of interest exists because the bill does not prohibit

employees on the board from participating in the decision to grant themselves performance awards. That is an obvious problem that can be easily fixed. More troubling, however, is the idea that employees in the same grade could participate in bonus decisions for their peers or for higher graded employees. Such an arrangement is inappropriate. The problem could be resolved by having only employees of a higher level sit on panels.

Another of our concerns relates to the fact that under the proposed system, final approval authority rests not with agency management, but with the boards. Thus, managers and agency heads will be unable to make award decisions.

BASE SALARY INCREASES

The bill reduces the number of performance rating levels from five to three. It also provides that persons receiving the highest level rating receive a full merit increase. This increase is equivalent to what a step increase is under the general schedule. We have not identified any objections to a three level system.

However, it appears that one of the rating levels that will be removed under the proposed change is the one between the highest rating, commonly referred to as outstanding, and the fully successful rating. OPM governmentwide data show that for fiscal

year 1987, 47 percent, or about 57,000 PMRS employees, were rated at the level between those two categories. Should that rating level be eliminated, these individuals will be rated either as fully successful or as outstanding. If a large number are rated as outstanding, the full merit increases that must be paid to these individuals could substantially increase annual compensation costs. Before adopting these provisions, the Subcommittee may wish to consider obtaining estimates of these costs. If the costs appear prohibitive, the Subcommittee could consider modifying the proposal to award a full merit increase or retain the rating category between outstanding and fully successful.

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We will continue our work on PMRS. At this time, we are surveying 47 agency personnel directors to get more information on how PMRS is functioning in the agencies and how agencies want to see the system improved. We will also look at various state government pay for performance systems and possibly some government corporation systems to find examples of successful programs. We will be pleased to share the results of this work with you as soon as they are available.

This concludes my prepared statement. We would be pleased to respond to your questions.

Mr. ACKERMAN. Thank you very much.

We appreciate your testimony and the very succinct summary.

According to the most recent OPM report on PMRS, higher graded employees are more likely to receive higher ratings and higher bonuses. Your testimony indicates that you believe only higher graded employees should be appointed to performance review boards.

Won't that reinforce the current pattern of grading and bonus distribution?

Mr. UNGAR. I don't think so, Mr. Chairman.

Our concern was that the way the boards were proposed, you could conceivably have a GM-13 deciding on a GM-15's award; or you could have GM-13's on a panel conceivably concerning their own awards or awards for their peers.

So our suggestion was that if there is going to be a board, the board ought to be structured so that you have higher level employees considering the performance and the merits of those employees below them.

Now, it could conceivably occur that they would not give any awards. But it ought to be a structured system, where you ought to have 14's looking at 13's, and 15's looking at 14's and maybe Senior Executives looking at the 15's. So, hopefully, overall you would not have a situation whereby the higher level of employees would award a sufficient number of bonuses to the employees at the 13 level.

Mr. ACKERMAN. You don't think it is appropriate for 13's to rate 15's, or you don't think they have the expertise to do that?

Mr. UNGAR. We don't think it is appropriate for the lower grade employees to assess the performance of the higher graded employees for award purposes. We would prefer to see it the other way around.

Mr. ACKERMAN. Why?

Mr. UNGAR. Why? Well, in terms of the level of responsibility, it is greater at the higher levels. There are some systems in private industry that use sort of a peer system, whereby the employees in the group are involved in ratings and awards. I don't know how well all those systems work. Obviously that is a matter of choice.

Mr. ACKERMAN. Your testimony also suggests that the Subcommittee consider the authority granted to the performance review boards in the bill. Are you suggesting that we make the boards simply advisory?

Mr. UNGAR. That is our feeling, Mr. Chairman.

The dilemma we saw was that the manager, who has accountability for achieving the organizational results, would not have the authority and responsibility for rewarding and motivating employees under that scenario. They would certainly give the ratings. But, then, when it comes to the rewards and the bonuses, they would not be the ones who are, number one, making the decision, and, number two, being accountable for the result. That would be the dilemma that we would see.

Mr. ACKERMAN. How would you respond if the Senior Executive Service people were on the boards?

Mr. UNGAR. I don't think we would have an objection.

Do you mean for everybody or just for the GM-15's?

Mr. ACKERMAN. Just in general, if they were included in the board. Would that reduce your objection to making the board's decisions mandatory, rather than advisory? If there were participation on that upper level on the boards, would that reduce the onus, or whatever you might envision is a problem?

Mr. UNGAR. I don't think so, Mr. Chairman, because you wouldn't have the managers making the decisions and then being held accountable for those decisions under that scenario. I mean, you would have a group of people making the decision, as opposed to the manager saying these are the people who work for me and these are the people who I feel performed well.

Now, one offshoot of that would be to have a performance review board, which would be advisory, and would make recommendations.

You could have a situation whereby if you have multiple groups, the board can sort of rank the people and tell the manager that the manager cannot change the rankings of the people.

I mean, you could have some variations on the theme of what the performance review boards could do.

Mr. ACKERMAN. What would that manager then do?

Mr. UNGAR. If the manager had multiple units, the manager could decide where to draw the lines in terms of who got what awards or didn't get awards. But the manager would not necessarily be able to shift people around within a group or a unit, if you wanted to go in that kind of direction.

I guess the dilemma, again, is whether the boards end up making the final decisions or whether they present to the decision maker information which they have to use in a certain way to come up with the final result.

Mr. ACKERMAN. Would the ranking of people in exact order cause more morale problems than it might solve?

Mr. UNGAR. Well, one advantage it would have would be to at least provide a number of people's views, hopefully who were knowledgeable about employees' performance and how they performed relative to each other.

There is some concern now with the process that there is a forced rating and that managers sometimes spread favorable ratings to spread the wealth, so to say. This would assist in dealing with that concern by, again, having a group of people who are knowledgeable about the employees' performance look at the ratings and the contributions that the employees made during the year in coming up with their assessment. Again, if they were knowledgeable about the people, it would add an element of objectivity to some degree.

Mr. ACKERMAN. But it sort of compromises the accountability aspect that you raised a concern about, does it not?

Mr. UNGAR. It does somewhat. It is a double edged sword.

It does, then, leave the manager with the responsibility of making the decision as to who gets exactly what awards.

I don't know if there is a perfect way to do this, Mr. Chairman. I don't know if there is any system that would result in every single individual who came under the system saying that it is the best system or it is an optimal system. I think as long as you have people who get awards and people who don't get awards, or who

get outstandings and get fully successfuls, you may have some people expressing concerns about it.

Mr. ACKERMAN. Your testimony suggests that the Subcommittee include a maximum bonus amount for individual employees. What should the maximum be?

Mr. UNGAR. We don't have a precise figure, Mr. Chairman. It was just a notion that conceivably substantially larger amounts could go to an individual, particularly in a unit where there may only be a small pool of money available.

So we did not have a precise figure in mind.

OPM's suggestion would probably be fine with us. It really does not make a difference to us.

Mr. ACKERMAN. So 20 percent would be acceptable?

Mr. UNGAR. Yes. We don't have a magic number, Mr. Chairman.

Mr. ACKERMAN. Would 50 percent be acceptable?

Mr. UNGAR. That seems a little high. But it is certainly conceivable.

Mr. ACKERMAN. We didn't have a figure in mind, either. That's why we didn't put one in. [General laughter.]

Mr. UNGAR. The problem is if you look at the literature——

Mr. ACKERMAN. They were in agreement.

Mr. UNGAR. Yes. Some of the literature we have seen suggests at least 10 percent in some cases, although there is a lot of variation among organizations.

One of the things we want to do, by the way—I did not mention it orally, but I did in my written statement—is we do hope in the next few months to get out to some state governments and government corporations to see what kind of systems they have and how they have structured them.

Our sense is that there is enough consensus about the problems in PMRS that there did not seem to be much use in going out and looking at more problems.

It seemed to us that since there was no consensus on solutions, we might identify some options that have worked in other settings. We had. So we have not gotten to the point yet where we are able to lay on the table an array of data that would suggest some things that have been done and are tried and proven.

Mr. ACKERMAN. Thank you.

Ms. Morella.

Ms. MORELLA. What about the election of the board with three names coming from employees, as is designated in your bill, two that would be coming from the organizations that represent them, but you would be given names. The nominations could even come from agency heads. But they would be put on a ballot and those employees who are part of the pool would have an opportunity to vote on it. There would be a term of two years, or whatever.

I am thinking in terms of higher education evaluation committees. They so often come from peers.

Now I know Mrs. Newman had a problem with that. On the other hand, I cannot think of anyone who more knows what the requirements are, and I think peers can be pretty stringent about it.

I just pose this whole concept. Then you could have the agency manager, or whatever, have an advise and consent role—like the

Senate, in a way—which could approve, and they probably would, unless there were some major problem. In that case, they could disapprove.

Does that kind of sound more like what you are getting at, or is it just a completely different concept?

Mr. UNGAR. I am not quite sure I followed all of that.

Ms. MORELLA. I mean something like having the same number of members but having an election, basically. You could have two who represent the organizations for a term.

Mr. UNGAR. There would be the same concern about who is making the decision.

One possibility is to go with a system like OPM was suggesting, where you give agencies flexibility. That might be an experiment that could be tried.

I know that the private sector has systems like that. Again, the question would be how successful these are. That is a question that I don't know offhand—how well do they work. Again, the knowledge of the employees would be important.

Ms. MORELLA. Managers would have to give it the okay?

Mr. UNGAR. Yes.

Again, do these people, who are on these panels, know the individual employee? That is our concern, too, about the composition.

In other words, you can have a board of people who would not, conceivably, know any of these employees or know what they did during the year. It could be a situation whereby those who perhaps worked on higher visibility projects, who had some name recognition, could conceivably get considered a little differently from the rest of the employees. And if you did not have people on this board who knew the employees and knew how they performed——

Ms. MORELLA. This would not be a fun board to be on.

Mr. UNGAR. I know.

Ms. MORELLA. It's sort of like Mr. Myers on the Ethics Committee. [General laughter.]

Mr. UNGAR. Yes, that's right.

There are a couple of things for the subcommittee to consider. Do you want to take that responsibility away from managers—it sounds like you do—and accountability? Also, in terms of employee perceptions, will they perceive that this board is going to know enough about their performance to really make a good decision, aside from looking at a sheet of paper which may be prepared but may not be complete, or whatever. Again, that is just a judgment.

But you might want to experiment with that in a few places before you institute it on a government-wide basis.

Ms. MORELLA. Thank you.

I have no other questions at this point.

Mr. ACKERMAN. Thank you very, very much, Mrs. Morella.

Ms. MORELLA. I enjoyed reading your statement.

Mr. ACKERMAN. Mr. Gilman, do you have any questions?

Mr. GILMAN. Thank you, Mr. Chairman.

Some of our people who will be testifying after this panel state that our system involves neither merit nor pay, and that the annual appraisal has been viewed pretty negatively by both supervisors and employees.

They point out that it is a rather arbitrary system with marginal distinctions and that quotas and forced rating distributions exist and contribute significantly to the lack of trust.

What are your comments with regard to those criticisms?

Mr. UNGAR. Mr. Gilman, some of those seem to be consistent with some of the observations that we found in our reviews, although our most recent one was somewhat limited.

We did find those types of concerns, partly as a part of the way in which the program is structured.

Mr. GILMAN. What can we do to overcome some of those?

Mr. UNGAR. Well, on the one hand, I think changing the structure of the payout would help by eliminating a mandatory award for those employees who are outstanding if there is a funding cap. In other words, if you have the 1.5 percent cap and you have mandatory performance awards for employees who are rated at the highest level, it automatically puts you in a box because you cannot rate so many people at an outstanding level if you really felt they deserved it. Otherwise, you would go over your dollar ceiling.

So I think the structure of the PMRS program right now would contribute toward that perception that employees have, because it does force them into it.

Mr. GILMAN. What should we do with the structure to change that?

Mr. UNGAR. Well, as a minimum, if you are going to keep a ceiling on the program, you might want to look at what the minimum award is going to be, or at least not mandate that everybody who receives an outstanding or the highest rating receive an award.

You can mandate that people who receive an award must receive at least 5 or 10 percent, or something like that. But if you say everybody who receives an outstanding award has to receive a minimum amount and then have a cap, that pretty much puts you in a box.

In other words, if you restructure the program to not force people into giving a certain rating, I think it would help.

Mr. STUBENHOFER. The bill does correct that problem right now.

Mr. UNGAR. Right.

Mr. STUBENHOFER. Under the old bill, anybody who got an outstanding rating had to get a bonus. This bill does not do that. So the bill does correct a dilemma between managing the amount of money I have and having to give bonuses to everyone who gets an outstanding rating.

Mr. GILMAN. How should we address the problem, the criticism, that employees are not participating in the setting of performance standards? What should we be doing to get the employees to be a part of that?

Mr. UNGAR. That is a difficult problem to address. I think it is probably not related specifically to PMRS as much as it to being a general problem overall.

It just seems to me that that is more of a management issue.

I don't know, I suppose you could have some legislation. But, really, it boils down to the manager's responsibilities and commitment to sitting down with employees and working out what the expectations are for the period that is going to be coming up, and

making sure that that process takes place and that the managers communicate to the employees periodically how well they are doing and if there are problems, that they certainly be identified and addressed.

Training may be a factor, too. But I don't know if legislatively that problem could be corrected. It is more of a management issue.

Mr. GILMAN. Did you survey the employees to see how they felt about the existing system?

Mr. UNGAR. Yes, sir.

What we did in our most recent review was hold a relatively small number of discussions with groups of PMRS employees. It was rather limited in this particular go-around. Those were some of the concerns that they expressed.

OPM did a little bit larger study than we did. The Merit Systems Protection Board, a few years ago, and the Managers Association also did surveys of employees.

My understanding is that the findings are pretty much in the same ballpark. There are a few differences here and there. But all the studies have shown pretty much the same result that you mentioned.

Mr. GILMAN. I am looking at the testimony of the Social Security Management Associations, which will be taken a little later on today. They say that more than 70 percent of their members support the concept of having pay based on performance. Only 2.5 percent believe PMRS is effective in relating performance and pay, and less than 10 percent said if they had a choice, they would remain under or would choose to be covered by PMRS.

That is a pretty sharp analysis which would lead me to believe that we are really not doing a job with this whole system.

Mr. UNGAR. I would make a couple of comments on that, Mr. Gilman.

Number one, the percentages may be slightly different in the different studies, but the thrust is probably similar.

The other thing that probably needs to be brought out, too, is there may not be a total understanding of PMRS. We found, and I think other groups have found, that not everybody fully understands how the program works.

The numbers come out to show a sizeable proportion do receive upwards, or close to 10 percent bonuses, and overall, of course, people come up with a little bit more than they did under the old system. So there are at least some people who are making out very well under the system.

Again, there does not necessarily seem to be a great deal of understanding among a number of employees of exactly how the system works.

That does not mean there are not problems with the system that need to be worked out. But you have the dilemma that the overwhelming majority of employees do not view the program as meeting its objectives, which, again, may be partly an educational problem.

But, again, I think some of the changes that we have been talking about, if they were made, particularly in terms of allowing more for awards for those who get awards, and getting away from

the perception that there is a forced distribution because of the way the program is structured, would help some.

Mr. GILMAN. I notice, too, in testimony that will be given later today by the Professional Managers Association, that only 3 percent of those responding believe that PMRS should be retained in their survey.

It is pretty strong criticism of the whole system. They state that under PMRS, the majority of managers who meet or exceed performance standards are made to feel like losers. Instead of measuring a manager's performance against standards, the managers are pitted against each other under PMRS, which, they say, is an unhealthy position.

Do you want to comment on that?

Mr. UNGAR. Well, I will try.

I am not sure it is possible to have a system where there wouldn't be competition among the managers for an award or a pool of money, because the funds would not be unlimited. So, no matter what system you create, you will probably have some who would not be receiving anything.

There are some things that can be done in PMRS, again, I think to at least help address that concern. Again, I don't know what the final program is going to look like, but there is a very small difference from the data we saw between those people who are rated at the fourth level, between fully successful and outstanding. So they are concerned that if they really do a good job, they don't make out that much better than the next group. That is probably a valid concern.

So, again, I think there are some things that probably can be done to help address the concerns. But I am not sure you would ever eliminate concerns that they will have to compete for awards.

Hopefully, what you arrive at is at least a situation where the majority of the people understand the system and they feel that at least there is a fair process that is in place for making the decisions.

Then the ratings would be between the managers and the employees.

Mr. GILMAN. What are your thoughts about separating the performance appraisal from bonus recommendations?

There is a statement by some of the managers where they say because the performance appraisals are so important to employees throughout their career with respect to morale and promotion opportunities, their ability to seek other positions, et cetera, it is important that performance appraisals be fair and accurate and that they be driven by no consideration other than performance.

Their survey has shown that managers' performance appraisals are much more important to them than whether or not they are awarded a bonus.

Do you feel there ought to be a separation in that process?

Mr. UNGAR. That is another tough question.

At this point, we don't think there should be a total separation between the performance appraisal and the award. On the other hand, I don't know that we would say the performance appraisal is the only piece of information that should be used in deciding who should get an award.

We think it ought to be one factor at this point that is considered. But, again, what the employee actually accomplished during the year, the achievements of the employee, and whether he or she carried out duties in accordance with the expectations over and above what the performance appraisal says, would be some things that we think ought to be factored in.

Now, whether that is by a board which makes recommendations or whether that is by the manager, we could have different systems. But I don't know that we would go as far as saying that the performance appraisal should have no relationship right now to the award.

I think if there are concerns about the appraisal process, we could certainly address those over time. Negative perceptions about appraised fairness are an age-old problem that you do not correct overnight.

We did a study a while back, about a year or so ago, on China Lake, which, as you know, is a Navy experiment. We don't know all the reasons for this, but from what we saw there, the employees who responded to the surveys seemed to feel that their system was fair and seemed to feel that it is fairly positive and that rewards are objectively determined, or as objectively as one could determine awards.

Again, I don't know whether any of the factors there would translate to the rest of the agencies. But I guess it can work.

Mr. GILMAN. You heard the testimony before you came to the table about the fact that 25 percent of 140,000 employees received bonus awards. Do you feel that this is an adequate distribution of the awards under the PMRS system?

Mr. UNGAR. Are you referring to the 25 percent who received all elements?

Mr. GILMAN. Yes.

Mr. UNGAR. That does not sound unreasonable. I don't know that there are any criteria.

I just saw that Fairfax County gave 38 percent of its teachers awards—I know that in the literature you see a lot of different notions. Some people seem to say that it is good if you have a lot of people getting something, even though the something may not be very much. Other people seem to think that you are better off having a system by which a relatively small number of people get a lot of money to recognize and reward them.

I don't know that there is a magic percentage. It may come down to each individual organization and its mission, its culture, and so forth.

Bill, Norm, do you have anything to add?

Mr. REINSBERG. I think that is true. In our earlier study, we noted that among the four agencies we looked at, there was a great bit of difference in how they decided to distribute performance awards, which is one element of this package.

I believe at IRS, for instance, they awarded about 40 percent of their employees performance awards, whereas OPM awarded closer to 80 percent.

I think that the only way you could explain that would be that there is no magic number and that it would depend on agency culture.

Mr. GILMAN. One of the management groups has stated that an overwhelming 86 percent of those answering their questionnaire felt that PMRS ratings are influenced by factors other than performance. Then they said 72 percent of their employees responding believed that ratings are influenced by favoritism.

Do you have a comment on that finding?

Mr. UNGAR. We received the same sort of responses with the employees that we met and discussed the program with.

I don't know how to address that other than to reiterate some of the things we have already talked about.

Mr. GILMAN. Is there some basis for that favoritism allegation?

Mr. UNGAR. We are not aware of that. We have not really made an assessment independently of the process, which would be kind of difficult to do—you know, to get behind a rating that a person gets. Even some of the SES folks that we spoke with agreed or acknowledged that there was pressure to either adjust or look at the ratings closely, so that you don't have so many that are outstanding that you exceed your budget.

Mr. GILMAN. That is a substantial number of people responding to that question, 72 percent claiming that is favoritism.

Mr. UNGAR. That is certainly the perception. We are not challenging that.

Mr. GILMAN. It would seem to me that would warrant further review, to see whether favoritism actually does exist.

Mr. UNGAR. Again, I think we did find some indication that there were adjustments made.

Now, whether that is favoritism, or exactly what that is, it is hard to tell. But certainly the perception is substantial enough to cause concern.

Mr. GILMAN. Thank you.

I guess I have exceeded my time.

Thank you, Mr. Chairman.

Mr. ACKERMAN. You could never exceed your time, Mr. Gilman.

Thank you very much for your very appropriate questions.

Let me thank you, Mr. Ungar, for appearing with your associates and for your complete testimony. We greatly appreciate it.

Mr. UNGAR. And we will see you next week.

Mr. ACKERMAN. Yes. See you next week.

The concluding part of today's program consists of a panel. On the panel is Mr. Michael E. Minahan, President of the Federal Managers Association; Mr. Robert Duncan, President of the National Council of Social Security Management Associations; and Ms. Helene Benson, President of the Professional Managers Association.

Let me welcome each of you separately and together as a panel for being with us today and providing us with your expertise and your testimony.

You have each submitted statements which, without objection, will be included for the record. You may summarize as you wish your statements. We will raise any questions that we have.

STATEMENT OF MICHAEL E. MINAHAN, NATIONAL PRESIDENT, FEDERAL MANAGERS ASSOCIATION

Mr. MINAHAN. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, we are pleased to provide the Federal Managers Association's views on the reauthorization of the Performance Management and Recognition System.

Let me first take the opportunity to thank you, Mr. Chairman, for your interest in this matter and for your efforts in introducing H.R. 2886, legislation that would deliver meaningful improvements to PMRS in the way it affects the performance and pay of Federal managers and supervisors.

As you know, the FMA is a professional group of 20,000 managers and supervisors in agencies and departments throughout the Federal Government. It represents the largest body of employees covered by PMRS.

While PMRS corrected some of the problems associated with the operation of merit pay pools, many of the fundamental defects associated with the original merit pay program remain in PMRS today.

Eighty-nine percent of our members who participated in a 1987 survey on PMRS said that it is not working.

Our members see:

A system that is too rigid in the number and complexity of ratings levels to allow managers to simply and easily recognize and reward quality performance;

A system that is manipulated by "forced" distributions of ratings, irrespective of the underlying performance of the employees themselves;

A system that suffers from inadequate funding for the performance award of "bonus" pools;

A system that fails to link individual performance to that of group performance in the organization's mission and goals; and

A system that fosters favoritism, or at least the perception of favoritism, because of the rotation of beneficial ratings, caused by insufficient awards funding and grossly inadequate funding in the overall pay system.

FMA and its members believe that the negative consequences just described require a major overhaul of PMRS.

FMA believes that the framework of PMRS reform should contain the following five primary elements of change: Simplification of the system; greater performance award funding, including the use of non-monetary awards and recognition; separation of the performance appraisal and rewards process, including the use of performance review boards; parity between PMRS merit increases and the General Schedule within grade increases; and, lastly, a broader view of performance management.

Many of those elements are embraced by H.R. 2886, which you, Mr. Chairman, and Mr. Hoyer, have introduced. I would like briefly to comment as to why each of these elements is critical to PMRS reform.

As to the simplification of the performance rating system, the current five-level rating system under PMRS is far too rigid and

complex. Five tiers are neither administratively efficient nor motivationally effective.

Therefore, a three-level system may represent the most practical and appropriate approach toward simplification of the process. Such a system would enable supervisors to evaluate performance as good, exceptional, or unacceptable. It would eliminate the need for the hair-splitting that arises under the current five-level system.

Broader ranges of evaluation for performance-based pay purposes are easier for supervisors to identify and employees being rated to understand and accept.

Your bill provides for the simplification of the ratings process by converting PMRS to a three-level rating system. We believe this is a primary and critical step toward meaningful reform.

As to the need for greater performance funding, this drastically limited funding approach to PMRS, more than any other factor, has strangled any chance of performance-based pay to succeed in the Federal Government. As we noted earlier, limited funding has been a primary factor behind forced distributions and quotas.

Therefore, in order to provide for a sufficient funding base for performance awards, we believe a minimum of 3 percent of the aggregate amount of PMRS employees' basic pay should be made available for such awards.

H.R. 2886 establishes a minimum of 1.5 percent requirement for agency award purposes. We understand that the establishment of the 1.5 percent requirement, equal to the maximum amount of agency awards available under current law, is designed to permit PMRS to remain within current budget law restrictions.

However, we do not believe that the proposed 1.5 percent-level of funding is adequate.

Most managers covered by PMRS regard the average $1,100 performance award as too small as to confer a significant motivational benefit.

While agencies would be authorized under H.R. 2886 to make greater amounts of funding available to their bonus pool from their payroll account—a step that in theory we applaud—we consider it highly unlikely that many agencies will possess sufficient resources to significantly increase the size of their bonus award pool.

As to the separation of the performance appraisal and rewards process, agency expectations as to the frequency or distribution of performance ratings, whether through the classic "bell curve" or some other model, are specifically prohibited by statute. Yet the statistical and anecdotal evidence continues to mount about the use of arbitrary ratings quotas and less direct pressures to control ratings.

Forced distributions often result. This may result in employees taking turns receiving "exceeds fully successful" or "outstanding" ratings. More frequently, however, ratings tend to be derived from the amount of funding in the merit pay pool and less upon performance itself.

These forces directly contribute to mistrust of the performance appraisal and rewards system by those covered under PMRS. Therefore, we believe reform of PMRS most effectively requires de-

tachment of the performance appraisal process from the awards process, as H.R. 2886 proposes.

As to the performance review boards, we support the approach embodied in your bill for the creation of a performance review board responsible for determining the recipients of performance awards. This approach, we believe, would eliminate much of the distrust that currently surrounds the involvement of supervisors and second-level supervisors in the performance award decision-making process.

These officials are also competing for merit pay pool dollars, which contributes to the perception among others in the pool of a potential conflict of interest involving the managed distribution of ratings.

Thus, the establishment of a performance review board, three of whose five members would constitute career employees covered by the system, represents a more credible approach for decision-making on performance award recipients.

Although H.R. 2886 does not provide for it, we would recommend that the Subcommittee consider requiring that one of each of the three career employees on the board be from grades GM–13, 14, and 15.

This approach, we believe, would bring to the decision-making process the informed consensus of other members in the merit pay pool, presumably familiar with the nominees' performance and contributions to the agency mission. It would also bring greater credibility and accountability to the awards process, two attributes missing from the current framework.

As to the parity between PMRS merit increases and General Schedule within grade increases, currently PMRS-covered employees rated "fully successful" with salaries in the middle tercile, or steps 4, 5, and 6, receive merit increases less than the within-grade increases received by their General Schedule counterparts.

We support the resolution to this inequity that H.R. 2886 would provide, by changing the merit increase for this group from one-third to one-half of a base salary increase.

Congress should encourage agencies and the Office of Personnel Management to broaden its view of performance management. Performance management should link performance pay to increased organizational effectiveness, through increased productivity, cost effectiveness and work quality.

Similarly, the Office of Personnel Management should encourage agencies to provide for meaningful employee participation in performance goal setting and work planning.

OPM should also encourage experiments, such as the McClellan PACERSHARE demonstration project, that link employee and organizational performance. And it should provide more effective training for supervisors in management methods that rely on constant, informal performance feedback.

Mr. Chairman, that concludes FMA's prepared statement. Thank you once again for the opportunity to share our views with the Subcommittee this morning. We appreciate your efforts and the hard work of your dedicated staff on this issue, and we look forward to our continued cooperation.

I would be most happy to answer any questions that you or any Member of the Subcommittee may have.

[The statement of Mr. Minahan follows:]

STATEMENT OF

MICHAEL E. MINAHAN,

NATIONAL PRESIDENT,

OF THE

FEDERAL MANAGERS ASSOCIATION

We are pleased to provide the Federal Managers Association's views on the reauthorization of the Performance Management Recognition System (PMRS).

Let me take this opportunity to thank you, Mr. Chairman, for your interest in this matter and your efforts in introducing H.R. 2886, legislation that would deliver meaningful improvements to PMRS and the way it affects the performance and pay of Federal mangers and supervisors.

As you know, the Federal Managers Association, as a professional group of 20,000 managers and supervisors in agencies and departments throughout the Federal Government, represents the largest body of employees covered by PMRS.

We as an association have maintained a long-standing interest in finding ways to continually improve individual and organizational effectiveness in the Federal Government's delivery of service to the American public.

Performance appraisals and performance awards represent two powerful human resource management tools available to the Government to promote personal and organizational achievement.

Performance appraisal is vital because it provides the opportunity for an employee to receive feedback from his or her superior on the employee's behavior and actions and their relationship to the satisfaction of agency goals and objectives.

Performance awards are equally important because employee recognition is universally recognized as an primary factor in promoting job satisfaction and productivity.

The integration of these two processes for nurturing and rewarding noteworthy service to the public make them potentially constructive instruments for improving the productivity and quality of Government. But when not used properly nor fairly, they can be equally destructive. They can rob the employee of motivation, dignity, and self-esteem and the Government of quality and productive worth.

During the past decade, the record of the Government's experience in devising and using systems for appraising and rewarding performance has damaged the productivity of the Federal Government and its employees more than it has helped it.

The Federal Government's performance appraisal and rewards system has failed to inspire Federal managers and supervisors to pursue excellence. Instead, the system has had just the opposite effect. Vulnerable to manipulation, the system has bred distrust, cynicism, and low morale among employees.

Created and used during a decade in which Federal pay has fallen dramatically behind the private sector, the Government's merit pay system has been bent and exploited to compensate for the overall deficiency of the Government's pay schedule. As such, it has become a pay band-aid.

The continuing impact of nonperformance-related factors, such as insufficient awards funding and ratings quotas, has caused employees covered by the Government's pay-for-performance system to regard it more as a stick, not a carrot.

In fact, a majority of the merit pay respondents in a 1986 Merit Systems Protection Board survey said that it was unlikely that they would receive more pay if they performed better.

Thus, today most merit pay employees find themselves paying for their performance, not being paid for it.

To better explain, let's take a look at where we are today and where we've come from.

The Merit Pay System: 1981-1984

Nearly a decade ago came the merit pay system, a major component of the Civil Service Reform Act of 1978. The system fundamentally changed the manner in which Federal managers and supervisors in grades 13 to 15 were paid. It discontinued the full amount of annual salary adjustments, within-grade increases, and quality step increases

that previously had been available to managers under the General Schedule. It caused managers to make up for what they lost by requiring them to compete for additional merit pay increases, based on how well they performed their jobs.

During the three years the merit pay system was in effect (fiscal years 1982 through 1984), it suffered a barrage of criticism. By 1984, the consensus of Congress, the administration, merit pay employees and organizations like ours was that merit pay was poorly implemented, inconsistent, and arbitrary.

Variations in agencies' formulas for distributing merit pay increases, and the use of pre-established quotas to determine ratings distributions, caused indiscriminate differences in the size of merit pay increases given to merit pay employees. The use of cash awards also differed significantly from agency to agency. In addition, the lack of full annual salary adjustments and within-grade increases caused many merit pay employees to believe that they were receiving less pay than their counterparts under the General Schedule.

Performance Management and Recognition System: 1984-1989

The disaster of the merit pay system caused Congress to attempt to improve the implementation of pay for performance principles by enacting the Performance Management and Recognition System (PMRS) in 1984.

PMRS retained the use of performance appraisals as the basis for pay and monetary reward decisions for the same group of managers and supervisors in grades 13 through 15 previously covered by the original merit pay system. PMRS also allowed the managers it covered to receive pay increases more comparable to those under the General Schedule. Moreover, it required agencies to reward employees for quality job performance on a more consistent basis.

PMRS: The Fundamental Defects Remain

While PMRS corrected some of the problems associated with the operation of merit pay pools, many of the fundamental defects associated with the original merit pay program remain in PMRS today. Eighty-nine percent of our members who participated in a 1987 survey on PMRS said that PMRS is not working.

In PMRS, our members see:

* A system that is too rigid in the number and complexity of ratings levels to allow managers to simply and easily recognize and reward quality performance.

* A system that is manipulated by "forced" distributions of performance ratings, irrespective of the underlying performance of employees themselves.

* A system that converts performance appraisal from a dialogue between superior and subordinate for improvement and praise, into a roughly predetermined ratings merry-go-round, with periodic chances to grab the bonus brass rings.

* A system that suffers from inadequate funding for the performance award or "bonus" pools.

* A system in which performance goals are not mutually established by the supervisor and the employee, causing the employee never to fully "buy in" to the appraisal system.

* A system that fails to link individual performance to that of group performance and the organization's mission and goals.

* A system whose funding limitations fail to provide performance awards of sufficient size to adequately motivate optimum performance.

* A system that fosters favoritism, or at least the perception of favoritism, because of the rotation of beneficial ratings, caused by insufficient awards funding and grossly inadequate funding in the pay system overall.

* A system that penalizes employees in the mid-grade steps (steps 4, 5 and 6) who have received ratings of "fully successful" in comparison to the frequency of within-grade increases received by their General Schedule counterparts.

* A system that fails to sufficiently encourage prompt, pronounced, and lasting improvement by those employees failing to meet the requirements of their jobs.

* A system that suffers from a lack of common understanding by employees covered by it as to how it works, and most important, how it ought to work.

FMA and its members believe that the negative consequences just described require the major overhaul of PMRS.

PMRS Reform: The Fundamental Framework

The Federal Managers Association believes that the framework for PMRS reform should retain the following primary elements of change:

1. Simplification of the performance rating system;

2. Greater performance award funding, including the use of non-monetary awards and recognition;

3. Separation of the performance appraisal and rewards processes, including the use of performance review boards;

4. Parity between PMRS merit increases and General Schedule within-grade increases; and

5. A broader view of performance management.

Most of these elements are embraced by H.R. 2286, which you, Mr. Chairman, and Mr. Hoyer have introduced. I'd like to briefly comment as to why each of these elements is critical to PMRS reform.

Simplification of the Performance Rating System

The current 5-level rating system under PMRS is far too rigid and complex. Five tiers are neither administratively efficient nor motivationally effective.

The fine distinctions that PMRS requires between "fully successful" and "exceeds fully successful", and between "exceeds fully successful" and "outstanding", are far too difficult for supervisors to accurately and fairly draw in rating their subordinates.

Nor are these distinctions necessarily useful in motivating improved performance, in light of their vulnerability to revision by supervisors and second-line supervisors due to the nonperformance-related factors that we previously referred to.

Therefore, a three-level rating system may represent the most practical and appropriate approach toward simplification of the ratings process. Such a system would enable supervisors to evaluate performance as good, exceptional or unacceptable. It would eliminate the need for the hair-splitting that arises under of the current five-level system.

Broader ranges of evaluation for pay-for-performance purposes are easier for supervisors to identify and employees being rated to understand and accept.

As Gellerman and Hodgson have noted in their description in the *Harvard Business Review* of the successful use of a three-tier performance rating at the Fortune 500 chemical concern, American Cyanamid Company:

> – [M]ost employees, most of the time, perform somewhere within a broad range of acceptability, and – while fine distinctions within this range are possible – making them is neither necessary administratively nor desirable motivationally." (Saul W. Gellerman and William G. Hodgson, "Cyanamid's New Take on Performance Appraisal", *Harvard Business Review*, May-June 1988).

H.R. 2886 provides for the simplification of the ratings process by conversion of PMRS to a three-level rating system. We believe this a primary and critical step toward meaningful reform. Conversion from five to three levels should be

accomplished Government-wide, so long as PMRS operates Government-wide, in order to assure fairness and comparability among all employees covered under PMRS. In the absence of such an approach, we will return to the days of the original merit pay program, when variations in agency formulas for distributing merit pay increases caused inequitable and unacceptable differences in the size of merit increases.

The Need for Greater Performance Funding

Over the five-year life of PMRS from 1984 to the present, the amount of funds agencies have been required to spend for performance rewards has risen from a minimum 0.75 percent of aggregate amount of PMRS employees' basic pay in FY 1985 to 1.15 percent. The maximum amount an agency could spend in any year has been 1.5 percent.

This drastically limited funding approach to PMRS, more than any other factor, has strangled any chance of pay-for-performance to succeed in the Federal Government. As we noted earlier, limited funding has been a primary factor behind the creation of forced distributions and quotas.

Therefore, in order to provide for a sufficient funding base for performance awards, we believe a a minimum of 3 percent of the aggregate amount of PMRS employees' basic pay should be made available for such awards.

H.R. 2886 establishes a minimum of 1.5 percent requirement for agency performance funding award purposes. We understand that the establishment of the 1.5 percent requirement, equal to the maximum amount of agency awards available under current law, is designed to permit PMRS to remain within current budget law restrictions.

However, we do not believe that the proposed 1.5 percent level of funding will provide significant improvement over the current system so as to provide an adequate number of performance awards of sufficient size to those managers deserving of them.

Most managers covered by PMRS regard the average $1100 performance award as too small as to confer a significant motivational benefit.

While agencies would be authorized under H.R. 2886 to make greater amounts of funding available to their bonus pool from their payroll account–a step that in theory we applaud–we consider it unlikely that many agencies will possess sufficient resources to significantly increase the size of their bonus award pool.

To alleviate this funding shortfall, as well as to broaden the image of performance management, we believe that agencies should be authorized and encouraged to use non-monetary rewards as well in the recognition of exemplary performance. We believe that Congress should direct OPM to study and evaluate the prospect of authorizing agencies to use benefits, such as annual leave and parking, in praising good performance.

Separation of the Performance Appraisal and Rewards Processes

Agency expectations as to the frequency or distribution of performance ratings, whether through the classic "bell curve" or some other model, are specifically prohibited by statute. Yet the statistical and anecdotal evidence continues to mount about the use of arbitrary, ratings quotas and less direct pressures to control ratings.

Forced distributions often result. This may involve employees taking turns in receiving "exceeds fully successful" or "outstanding" ratings. More frequently, ratings tend to become derived from the amount of funding in the merit pay pool, and less upon performance itself.

One employee described the all-too-frequent *modus operandi* to the General Accounting Office in the following manner:

> "Managers examine the award money available, rank the relative performance of subordinates, and then decide how to rate employees so that funds are divided as they deem appropriate. Ratings that produce these results are then derived. Every appraisal system works this way; belief in

> some totally objective formula for rating complex and varied management jobs is a snare and a delusion." (General Accounting Office, "Pay for Performance: Implementation of the Performance Management and Recognition System" GAO/GGD-87-28, January 1987).

These forces directly contribute to mistrust of the performance appraisal and rewards system by those covered under PMRS.

Therefore, we believe reform of PMRS most effectively requires detachment of the performance appraisal process from the performance awards process, as H.R. 2886 proposes.

Under H.R. 2886, the annual performance appraisal between supervisor and subordinate would continue, with the conferral of merit increases relative to the level of performance. However, the key difference from current practice would involve placing the conferral of performance awards on a separate track. As such, nominations for performance awards would be initiated by supervisors, with the awards decision-making process assigned to a panel whose majority would include representatives of the actual merit pay pool.

This approach allows the performance appraisal to be a more open and accurate dialogue between the supervisor and subordinate. Supervisors would feel more free to concentrate on discussing the strengths and shortcomings of the subordinate, and less compelled to align the appraisal to the relative financial ranking assigned the subordinate.

Performance Review Boards

We support the approach embodied in H.R. 2886 for the creation of a performance review board responsible for determining the recipients of performance awards.

This approach, we believe, would eliminate much of the distrust that currently surrounds the involvement of supervisors and second-level supervisors in the

performance award decision-making process. These officials are also competing for merit pay pool dollars, which contributes to the perception among others in the pool of a potential conflict of interest involving the managed distribution of ratings.

Thus, the establishment of a performance review board, three of whose five members would constitute career employees covered by PMRS, represents a more credible approach for decision-making on performance award recipients.

Although H.R. 2886 does not provide for it, we would recommend that the Subcommittee consider requiring that one of each of the three career employees on the board be from grades GM-13, 14, and 15.

According to H.R. 2886, nominees for awards would be named by their supervisors through the use of written statements and other relevant information they may choose to submit. Recipients of ratings of either "satisfactory" or the level above satisfactory would be eligible for nomination and award.

We believe that the criteria for award selection, consistent with general OPM guidance, may vary from agency to agency. Agencies should be assigned responsibility for the formulation of their own criteria for award selection, in keeping with the mission and goals of the agency or respective merit pay unit.

Of course, if a performance review board member were the subject of a nomination, he or she would refrain from participating in the consideration of the respective nomination.

This approach, we believe, would bring to the decision-making process the informed consensus of other members in the merit pay pool, presumably familiar with the nominees' performance and contributions to the agency. It would also bring greater credibility and accountability to the awards process, two attributes missing from the current framework.

Parity between PMRS Merit Increases and General Schedule Within-Grade Increases

Currently, PMRS-covered employees rated fully successful with salaries in the middle tercile or steps 4, 5 and 6 of their pay grade receive merit increases less than the within-grade increases received by their General Schedule counterparts.

We support the resolution to this inequity that H.R. 2886 would provide, by changing the merit increase for this group from one-third to one-half of a base salary increase.

Performance Management Means More than Annual Performance Appraisals

Finally, we believe that PMRS reform must involve the adoption of the view that performance management means more than the mere conduct of annual performance appraisals.

As Federal departments and agencies in growing numbers embrace the philosophy that employees must bear a greater personal stake in the effectiveness of the organization and the quality of its products and services, through the use of Total Quality Management and other approaches, performance management processes must adapt and change.

A frequent criticism of the PMRS performance appraisal process is that the employee does not meaningfully participate in the goal-setting that precedes performance and the subsequent appraisal process. Without "buying-in" to the underlying goals, the performance appraisal process becomes a sham.

Another criticism is that performance standards and rewards do not relate individual performance to organizational performance, nor encourage team-building or action by employees to identify and accept responsibility for performance problems and variances in the organization itself.

A related criticism is that the annual performance appraisal process is far too untimely to provide meaningful, effective feedback to the employee.

Statutory resolution of each of these problems is difficult. Employee participation in the establishment of performance standards, for example, is already mandated by statute.

Yet Congress should encourage agencies and the Office of Personnel Management to broaden its view of performance management. Performance management should link performance pay to increased organization effectiveness (increased productivity, cost-effectiveness, or work quality).

Similarly, the Office of Personnel Management should encourage agencies to provide for meaningful employee participation in performance goal-setting and work planning. OPM should also encourage experiments, such as the McClellan PACERSHARE demonstration project, that link employee and organizational performance. And it should provide more effective training for supervisors in management methods that rely on constant, informal performance feedback.

Mr. Chairman, this concludes our prepared statement. Thank you once again for the opportunity to share our views with the Subcommittee this morning. We appreciate your efforts and the hard work of your dedicated staff on this issue, and we look forward to our continued cooperation.

I shall be most happy to answer any questions you or other members of the Subcommittee may have.

Mr. ACKERMAN. Thank you very much, Mr. Minahan.
Is there any order of preference as to who should go next?

STATEMENT OF ROBERT DUNCAN, PRESIDENT, NATIONAL COUNCIL OF SOCIAL SECURITY MANAGEMENT ASSOCIATIONS

Mr. DUNCAN. I will go next, sir.

Thank you, Mr. Chairman and Members of the Committee.

The National Council of Social Security Management Associations appreciates the opportunity to be here today to discuss PMRS. We want to express our appreciation to you and to your staff for the hard work that they have done in developing this legislation to improve on PMRS.

We also want to thank Representative Hoyer for co-sponsoring this legislation.

Today's hearing provides the opportunity for this Committee to hear the views of those actually covered by PMRS as it considers legislation to reform the merit pay system.

As you have heard, studies by the Office of Personnel Management and the General Accounting Office have found numerous problems with PMRS, problems which make it essential that PMRS be significantly reformed or discarded.

PMRS is viewed as a failure by those covered by it. The universal criticism of the PMRS system is that it involves neither merit nor pay.

The cumulative impact of the shortcomings of PMRS undermines employee confidence in the system. Most employees would prefer to return to the GS pay system, rather than retain a PMRS system which they believe to be fatally flawed.

A recent survey of Social Security Management Association members found that, while more than 70 percent support the concept of having pay based on performance, only 2.5 percent believe PMRS is effective in relating performance and pay. Less than 10 percent said that if they had a choice, they would remain under or choose to be covered by PMRS.

It is clear that those most affected by PMRS believe that it is a bad system—some even call it a joke—and that it fails to do what it was designed to do, to motivate employees to better levels of performance.

The Social Security Management Associations supports the proposed legislation to create a new system to replace PMRS as a significant improvement over PMRS. Giving agencies a year to implement the new system while fixing the glitch for the intervening year is a good idea.

We support the continuation of the linkage between satisfactory performance and comparability pay increases. We support allowing agencies to increase the size of their bonus pool to fund larger, more meaningful, bonuses.

We especially support the establishment of an excellence awards bonus system, which severs the direct tie between an employee's performance rating and the opportunity for that employee to receive a bonus based on merit.

The establishment of a mechanism for peer review through excellence awards review boards at each agency helps to insure the integrity of the awards process.

There are two elements in the proposed legislation which we believe the Committee should reconsider and change. First, requiring bonuses to be at least 5 percent of an employee's annual salary unduly restricts the ability of the new system to reward meritorious performance. If agencies fund their merit bonus pool at the minimum of 1.5 percent of aggregate merit salary, as provided by the bill, at most, 30 percent of those under the new system can receive a bonus. Under PMRS, approximately 65 percent to 70 percent receive a bonus.

There are two ways to fix this problem. One alternative would be to require agencies to devote at least 3.5 to 4 percent of aggregate merit pay salary to bonuses. A second alternative would be to require bonuses to be at least 2 percent of the employee's salary. Two percent of the average PMRS salary is approximately $1,000, an award which most managers would consider significant and meaningful.

Recognizing the limited ability of most agencies to more than double the amount of money devoted to merit pay bonuses with their current funding, SSMA recommends adoption of the second alternative—lowering the minimum bonus to 2 percent of salary.

SSMA's second area of concern is with the performance appraisal rating system. The bill will move us into a simplified, less burdensome and demoralizing performance evaluation system.

One of the primary criticisms of PMRS is that it requires the drawing of artificial and arbitrary distinctions between employees through the performance appraisal process. The bill provides for three rating levels, rather than the current five, and, to this extent, it reduces the necessity for these kinds of distinctions.

SSMA has worked during the past year with FMA and PMA to develop a different approach to the merit pay concept. We advocated moving rewards for exceptional performance to a merit bonus system and establishing a two-tiered performance evaluation system, which would be completely separate from the bonus system.

The three management organizations discussed several approaches to the concept of merit pay, a concept which we all support. We wanted to identify a method of insuring fairness in a merit pay system which is not funded adequately.

We finally concluded that complete separation of ratings and merit bonuses must be achieved in order to eliminate the problem of money-driven, rather than performance-driven, ratings.

A two-tier system appears to be the single method which best guarantees that this would be the case.

We believe that proficiency should be the standard for merit pay managers and supervisors. We believe that all proficient managers and supervisors should receive a full merit increase each year. All proficient managers would appropriately receive the same rating, and a separate bonus system would be used to recognize truly superior contributions.

A majority of SSMA members support a two-tier performance appraisal rating system, which would allow distinctions between the

performance of individual employees to be made through an excellence awards bonus system. Such a system would allow for varying rewards over the full spectrum of excellent performance.

We recommend that the proposed legislation be changed to adopt this concept of relating pay and performance.

The proposed legislation represents a significant improvement over the current PMRS, but adoption of SSMA's two recommendations would make the replacement for PMRS even better.

Thank you for the opportunity to present our views, and we pledge our support as you attempt to find a replacement for PMRS.

[The statement of Mr. Duncan follows:]

Testimony of the

National Council of
Social Security Management Associations

The National Council of Social Security Management Associations appreciates the opportunity to present testimony on the Performance Management and Recognition System (PMRS), the current merit pay system which covers approximately 130,000 mid-level federal managers and supervisors. We want to express our appreciation to Chairman Ackerman and his staff for their interest and hard work in developing legislation to improve PMRS. We also want to thank Representative Hoyer for co-sponsoring this legislation.

Today's hearing provides the opportunity for this Committee to hear the views of those actually covered by PMRS as it considers legislation to reform the merit pay system. Legislative action is essential because the five-year PMRS experiment ends on September 30, 1989.

The National Council of Social Security Management Associations (SSMA) is especially qualified to speak out on PMRS because all of our members are either covered by PMRS or affected by it. SSMA was founded twenty years ago to represent the views of the Social Security field office managers and supervisors across the country. We have over 3500 members from the more than 1300 Social Security field offices. Over eighty percent of all eligible Social Security management employees belong to our dues-supported organization. Our members hold the most publicly visible and accountable jobs in SSA. Our offices provide direct

service, in person and over the telephone, to those applying for benefits and to the more than 39 million Americans already receiving Social Security benefits. In carrying out our mission we are in frequent contact with congressional offices in the areas we serve. In the field offices, our greatest concern is our ability to serve the American public effectively. The public relies on our employees for timely, accurate payment of their Social Security benefits.

Within the SSA field office structure, PMRS plans establish the goals and objectives not only for those directly covered by the system but also for those managers and supervisors under the GS system who are supervised by those under PMRS.

SSMA's testimony consists of four parts: 1. A description of the essential elements of PMRS; 2. An analysis of the problems which exist with PMRS; 3. An analysis of the proposed legislation to reform PMRS; and 4. A discussion of SSMA's recommendation for a new approach to merit pay for federal managers.

THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

Congress enacted the Performance Management and Recognition System (PMRS) in 1984 to replace the Merit Pay system established by the Civil Service Reform Act. The PMRS system will expire on September 30, 1989. In general, PMRS was designed to remedy certain defects in the Merit Pay system by providing greater

structure to the system and more equity in salary increases.

There are five summary performance rating levels under PMRS--unsatisfactory, minimally satisfactory, fully satisfactory, excellent, and outstanding. Salary increases and eligibility for performance awards are tied to the rating level received. Employees at the fully satisfactory level or above receive the full general salary increase each year, unsatisfactory employees receive no general salary increase, and minimally satisfactory employees receive one-half of the general salary increase.

PMRS employees are eligible to receive merit increases equivalent to within-grade increases under the GS system. Employees who receive a performance rating of fully successful or above and who are in the lower third of the salary range receive a full merit increase, as they would have under the GS system. Employees in the upper two-thirds of the salary range receive a full merit increase for an outstanding rating, one-half of a merit increase for an excellent rating, and one-third of a merit increase for a fully satisfactory rating. Employees rated below fully successful do not receive merit increases.

PMRS employees who receive a performance rating of fully satisfactory or above are eligible to receive performance awards. Employees who receive the highest rating must receive a performance award of at least 2 percent of salary. The money

available for performance awards is limited to between 1.15 and 1.5 percent of the total salaries of those in the organizational pool used in granting awards.

The PMRS legislation prohibits agencies from directing the distribution of performance ratings.

Agencies must communicate performance standards and critical elements to PMRS employees in writing at the beginning of each appraisal period. PMRS provides that performance standards must be jointly developed by supervisors and employees.

The PMRS system represents an evolution of the pay for performance system established by the Civil Service Reform Act. It is predicated on the belief that good performance should be rewarded and bad performance should be punished through the granting or withholding of pay increases and awards.

PROBLEMS WITH PMRS

Despite the hard work of many Members of Congress five years ago to address deficiencies in the Merit Pay system, and the best efforts of federal management organizations to assist Congress, the Performance Management and Recognition System (PMRS) which grew out of that effort is viewed as a failure by those covered by it. The universal criticism of the merit pay (PMRS) system inflicted upon federal managers and supervisors is that it

involves neither merit nor pay.

The annual appraisal is viewed negatively by both supervisors and employees. A fully satisfactory rating is seen as an average or even below average rating. Almost all employees believe their performance is above average and react negatively to receiving what they consider to be an average rating.

Performance appraisal distinctions between the fully satisfactory, excellent, and outstanding levels are often arbitrary and based on subjective or nonperformance factors. Many agencies have established a points system in which percentage weights on "critical" and "non-critical" elements are used to determine a final total number of points for each employee. In a 500 point system, a difference of only 2 points (399 and 401, for example) leads to a substantially higher bonus plus a larger merit increase for one employee while the other, who is in reality an equally fine performer, gets much less.

These kind of marginal distinctions are meaningless, lead to abuse of the system, and promote distrust among those covered by PMRS.

Quotas and forced rating distributions, although denied by agencies, exist and contribute significantly to the lack of trust in the system. Forced distributions often result in employees

taking turns in receiving excellent or outstanding ratings. Quotas lead to competition between employees rather than cooperation in achieving better service to the public.

Financial reward serves as the primary performance motivator under PMRS, but most management experts agree that money does not motivate better performance. Lack of money can serve as a demotivator, and the small size of some performance awards under PMRS does just that. GS employees at lower pay grades receive larger awards for the same performance rating level than those under PMRS. This inequity further destroys faith in the system.

Employees do not participate in the setting of performance standards even though the law requires that this be done.

Performance plans are changed throughout the year, again without employee participation. Often these changes are informal so that the written plan no longer describes required performance.

Performance plans often focus on what is easily measurable rather than on more important performance factors which are more difficult to measure objectively. Performance measurement systems often mix definitive statistics with more subjective criteria which are viewed with suspicion by employees.

Most employees agree with the concept of pay for performance but

neither merit pay nor PMRS has provided a system under which employees believe better performance will be rewarded by increased pay. The cumulative impact of the shortcomings of PMRS undermines employee confidence in the system. Most employees would prefer to return to the GS pay system rather than retain the current PMRS system which they believe to be fatally flawed.

These criticisms of PMRS have been verified by a survey of SSMA members. While more than 70 percent of our members support the concept of having pay based on performance, only 2.5 percent believe PMRS is effective in relating performance and pay. Less than 10 percent said that if they had a choice they would remain under or choose to be covered by PMRS. Almost 99 percent said that SSMA should work to abolish or reform PMRS, with over 60 percent recommending reform.

Clearly, those most affected by PMRS believe that it is a bad system. PMRS fails to motivate employees to better performance. However, they hope there is a way to reform the system to effectively relate performance and pay while removing the serious weaknesses and disincentives they have experienced under PMRS.

PROPOSED LEGISLATION TO REFORM PMRS

The National Council of Social Security Management Associations, the Federal Managers Association, and the Professional Managers

Association have actively worked with the staff of this Committee to develop a proposal to reform PMRS. SSMA supports the proposed legislation as a significant improvement over the current system.

SSMA supports making the reformed system effective on October 1, 1990. This allows agencies a year to prepare for implementation. We support correcting the "glitch" for the intervening year to eliminate the disadvantage for certain employees under PMRS regarding their ability to move as quickly through the steps in a pay grade as do employees under the General Schedule.

We support the continuation of the linkage between satisfactory performance and comparability pay increases.

We especially support the establishment of an Excellence Awards bonus system which severs the direct tie between an employee's performance rating and the opportunity for that employee to receive a bonus based on merit.

We support allowing agencies to increase the size of their bonus pool to fund larger, more meaningful bonuses.

We support the establishment of a mechanism for peer review through Excellence Awards Review Boards at each agency. This will ensure the integrity of the awards process and will help restore employee confidence in the system.

Although we appreciate the bill's intent to provide truer incentives by requiring that all bonuses be at least 5 percent of an employee's annual salary, SSMA recommends that this restriction be removed. We recognize the common complaint from some employees under PMRS that bonuses are small, sometimes smaller than cash awards received by GS employees. However, the minimum 5 percent requirement will too severely restrict the number of bonuses. If agencies fund their merit bonus pool at the minimum of 1.5 percent of aggregate merit salary provided by the bill, at most 30 percent of those under PMRS can receive a bonus. (For 30 percent to receive bonuses, no bonuses could exceed the 5 percent minimum.) Under the current system, about 70 percent receive bonuses.

Some managers under PMRS at the Social Security Administration who received a "Fully Satisfactory" rating received bonuses last year of approximately $400. Higher bonuses were paid to those receiving higher ratings. If a minimum bonus were set, for example, at 2 percent of salary, the minimum bonus would be, on average, about $1000, which is a significant and meaningful amount for most managers. We therefore believe agencies should be allowed to give bonuses at least down to the 2 percent level.

We further believe that the proposed legislation will ameliorate many of the problems which have led managers to say that their

bonuses are "not worth it" under the current PMRS. It is not just the size of the awards but the punitive, competitive nature of the current appraisal system which leads them to this complaint.

More important than money as a motivator of good employees is professional pride and the feeling of being valued. SSMA supports the proposed legislation which will move us into a simplified, less burdensome and demoralizing performance evaluation system which will enhance rather than undermine these critical, non-monetary motivators.

The proposed three-level performance appraisal rating system is a clear improvement over the current five-level system. One of the primary criticisms of PMRS is that it requires the drawing of artificial and arbitrary distinctions between employees through the performance appraisal rating system. A system which provides for three ratings, rather than the current five, reduces the necessity for these distinctions.

Given the proposed three-level performance appraisal rating system, SSMA supports rewarding outstanding performance by full merit increases annually. Those whose performance is fully satisfactory would receive a full merit increase during their first three years in a pay grade and one-half a merit increase each year thereafter. This is another improvement over the

current PMRS.

We believe that in the face of political and budgetary constraints which today dictate the boundaries of possible reform of PMRS, the proposed legislation, with the change we have suggested, represents an adaptation of merit pay which promises to be a program that is more successful in achieving merit pay goals than the current PMRS.

A DIFFERENT APPROACH

SSMA worked during the past year with FMA and PMA to develop a different approach to the merit pay concept. Our goals were to simplify the system, to ensure that performance became the sole determinant of performance rating, and to alleviate the distrust and dissatisfaction with PMRS among those covered by it.

After surveying our members and researching merit pay in the private as well as public sectors, we advocated moving rewards for exceptional performance exclusively to a merit bonus system and establishing a two-tier performance evaluation system which would be completely separate from the bonus system.

We know that it is not obvious, at first, why merit pay managers, who nearly all wholeheartedly support the concept of merit pay, would find themselves favoring a system in which they would be

grouped in one rating category. Only after struggling to identify a method of ensuring fairness in a merit pay system which is not funded adequately have we come to the conclusion that complete separation of ratings and merit bonuses must be achieved in order to eliminate the problem of money-driven, rather than performance-driven, ratings. A two-tier system appears to be the single method which guarantees that this would be accomplished. As long as there are ratings categories higher than "Fully Satisfactory," quotas and real or perceived favoritism can threaten to taint the ratings system and undermine employee confidence in it.

Another option might be a three-tier system, with the top rating "Fully Successful" and two ratings below, such as "Needs Improvement" and "Unsatisfactory." We understand that a number of agencies have chosen just such a system for their Senior Executives. Supervisors then submit the executives' evaluations, either with or without a bonus recommendation, for consideration by a Performance Review Board having as a majority of its members career executives.

Ideally, SSMA would like to see uniform, full merit increases each year for all successful managers under a merit pay system, with the use of the separate bonus system to recognize truly superior contributions. "Fully successful" -- we prefer the term "proficient" -- should be the government-wide standard for merit

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pay mangers and supervisors. It would therefore be appropriate to place all those who are performing successfully in one rating category and give them regular merit increases for doing a good, solid job and remaining proficient in their skills. Managers under PMRS are employees who have already proven themselves and have competed through the merit promotion process several times to attain their current positions. They have voluntarily accepted the increased risks and responsibilities attendant to the move into the GM ranks. They deserve a performance evaluation and reward system which recognizes these facts and demonstrates appreciation for their hard work.

It is telling that although the majority of PMRS managers who are rated above "Fully Satisfactory" and are therefore financially better off than they would be under the old GS system find PMRS demoralizing and do not believe that it truly rewards performance. In fact, many managers under PMRS would prefer to return to the GS schedule. Simply put, PMRS as implemented is damaging to the self esteem of the people it was intended to reward and motivate.

The overwhelming majority of SSMA merit pay managers directed our association to work to abolish or reform PMRS. Nothing speaks more clearly than that of their belief that they are worse off under PMRS as currently structured and implemented, despite the facts which show that employees under PMRS are advantaged

financially compared to GS employees. Our survey shows that they simply do not feel the gain is worth the pain of PMRS.

A majority of SSMA members support a two-tier performance appraisal rating system which would allow distinctions between the performance of individual employees to be made through an Excellence Awards bonus system. Rather than recognizing only two or three levels of performance and "pigeonholing" employees, such a system would allow for varying rewards over the full spectrum of excellent performance.

SSMA's members know that this Committee has worked over several months to develop legislation in response to their concerns, legislation which would incorporate the attributes of a simplified, more equitable approach to merit pay. They know that the Office of Personnel Management, the Merit Systems Protection Board, and the General Accounting Office have confirmed the same widely-acknowledged and serious problems with PMRS that the management associations have identified. Finally, they know that the legislation proposed by Chairman Ackerman and Representative Hoyer results from much analysis of these problems and painstaking efforts to find a politically viable option to address and correct them.

The proposed legislation represents a significant improvement over the current PMRS. The National Council of Social Security Management Associations thanks the Committee for this opportunity to present our views and pledges its support for the Committee's efforts to develop a merit pay program which will restore the faith of employees in the equity and integrity of the system.

Mr. ACKERMAN. Thank you very much, Mr. Duncan.
Ms. Benson.

STATEMENT OF HELENE A. BENSON, PRESIDENT, PROFESSIONAL MANAGERS ASSOCIATION

Ms. BENSON. Mr. Chairman and members of the subcommittee, thank you for the opportunity to present the views of the Professional Managers Association regarding PMRS.

PMA, a national association of Federal PMRS managers, recently conducted a survey to obtain the opinions of Federal managers covered by PMRS. We received responses from more than 2,300 managers located in 43 states and throughout more than 37 Federal agencies.

Our survey confirmed the impression that we have had, based on complaints about PMRS since its implementation, that it, too, could be described in words that Congresswoman Mary Rose Oakar described the merit pay system: a "disincentive millstone on the back of the Federal Government."

We would like to make the statistical results of our survey a matter of record with the subcommittee. We also wish to enter into your record a compilation we have made of specific comments submitted in our survey.

Our survey shows that the overall perception of PMRS is one of inequity, insufficient funding for meaningful awards, a paperwork burden that is overwhelming and not worth the result, and a morale defeater, not a booster.

Nearly 63 percent of those responding to our survey believed that PMRS has had no effect on their performance, and a significant 22 percent reported a negative effect.

When we asked whether or not quotas and forced distributions were common in their experience, only 5 percent reported that they are not. More than three-fourths of those surveyed believe that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management. Seventy-two percent believed that ratings are influenced by favoritism.

Despite the fact that managers are generally financially better off under PMRS than they would be under the General Schedule, only 3 percent of those responding believe that PMRS should be retained. Almost 50 percent recommend a revised pay for performance system.

Now, why is this, that even though we are better off under PMRS, we don't like it? I think the answer is that under PMRS, the majority of managers who meet or exceed performance standards—in other words, those who do not make an outstanding rating—are made to feel like losers.

Instead of measuring a manager's performance against standards, the managers are pitted against each other under PMRS, an unhealthy situation.

A recent article by Andrea Gabor for "U.S. News and World Report," for the June 5, 1989 issue, entitled "Catch a Falling Star System" provides food for thought.

Ms. Gabor wrote: "In plucking a handful of whizzes for bonus pay, most schemes treat the bulk of employees like losers." She was writing about private industry systems of "annual reviews and performance ranking to identify and reward star achievers, while encouraging the rest of their employees to improve performance."

She reports, though, that rather than rallying employees, merit systems can erode initiative and morale if they make hairsplitting, unwarranted distinctions between individuals. She notes that American firms are reexamining their tracking systems and are concluding that "the report cards, not the people, are flunking out."

She quoted management expert W. Edwards Deming as branding yearly appraisals as "the most powerful inhibitor to quality and productivity in the Western World."

Now, we do not propose to be quite so damning of pay for performance systems. However, most of our respondents believe the PMRS system should have major changes.

First and foremost, except for those managers who are failing in their performance, there should be no other perceived losers. But under PMRS, if a manager has less than an outstanding rating, his or her performance is suspect.

Although no appraisal system will take care of all complaints, we think that your proposed Performance Management and Recognition System Reauthorization Act improves upon the present PMRS in several important ways, and we thank you and Congressman Hoyer for introducing that.

First, we believe it is important to have separate processes for performance appraisal and for bonus recommendations.

Because their performance appraisals are so important to employees throughout their careers, it is very important that performance appraisals be fair and accurate and that they be driven by no considerations, other than the employee's performance.

Second, the establishment of a minimum bonus pool of 1.5 percent of PMRS payroll, with no legislated maximum, is also an important improvement. One of the constant complaints about PMRS was insufficient money.

Third, while we agree that supervisors should be able to recommend for bonuses both those rated fully successful and those rated above fully successful, as your bill provides, we do not agree with the requirement that there be a minimum bonus of 5 percent, especially in such circumstances as now exist of limited funds.

Although one of the complaints about PMRS is small bonuses, we nevertheless strongly suggest that the amount of the bonuses be left to the discretion of the agencies, at least as far as minimums are concerned. We believe it is far better for agencies to be able to award bonuses to all who deserve them, even if the price is a smaller bonus.

We would agree with the minimum bonus only if sufficient funds were allotted for agencies to award bonuses to all who deserve them.

Fourth, we believe the establishment of performance review boards to review supervisors' recommendations for bonus awards consisting of at least three PMRS managers could be an important step in building employee confidence in the system.

Peer review groups are now utilized by many agencies to review supervisors' award recommendations because it is thought that peer review and approval is important in establishing the credibility of awards.

Fifth, the most important improvement is half-step increases in steps four and above for those managers who are fully successful, and full-step increases each year for those rated above the fully successful level. This feature makes up for past injustices in the PMRS system and its predecessor and provides an incentive for employees to be willing to be covered by the system.

One of the most serious complaints about PMRS and its merit pay predecessor was that employees had no incentive to take managerial jobs covered by the system.

Finally, we would prefer a two-tiered rating system, rather than a three tiered system. The two levels we suggest are, "proficient" and "needs improvement." Perhaps other adjectives may do.

But we must obliterate the psychological hurts that are now being inflicted by the current system. We are not sure a three tiered grading system, though clearly an improvement over the present five level rating system, will accomplish this because those not rated above fully successful might still feel like losers.

To meet the intent of the law establishing PMRS that organizational effectiveness be improved and that productivity be increased, we must devise a system that brings people together, not one that pits them one against another.

We question a system devised solely for the benefit of so-called "super stars," especially when one of the most frequent and bitter complaints about PMRS has been favoritism.

We must devise a system where those doing a good job and meeting agency expectations feel good about themselves.

It is important if we wish to have a culture of excellence in government that we have a system where those who have met standards of acceptable performance are not perceived as or made to feel like losers. Otherwise, we will wind up with another report card that flunks.

Thank you very much for your attention.

[The statement of Ms. Benson follows:]

STATEMENT OF
PROFESSIONAL MANAGERS ASSOCIATION

Before the
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

July 18, 1989

on
Reauthorization of the
Performance Management and Recognition System

Presented by
Helene A. Benson
President
Professional Managers Association

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present the views of the Professional Managers Association regarding the imminent termination of the Performance Management and Recognition System (PMRS) as provided under existing law.

The Professional Managers Association (PMA), an association of Federal PMRS managers, conducted a survey to obtain the opinions of Federal managers covered by PMRS preparatory to developing our position regarding the continuance or not of the current PMRS program. We received responses from more than 2300 managers located in 43 states and throughout more than 37 Federal agencies.

Our survey confirms the impression we have had, based on complaints about PMRS since its implementation, that PMRS is also, in words describing the "merit pay" system it replaced, a "disincentive millstone on the back of the Federal Government."

Over 86% of those responding to our survey support the premise that pay should be linked to performance. However, I would like to share with you some of the other statistics we developed from our survey. They clearly point to issues of concern regarding the effectiveness of the PMRS system, as now in place, in meeting and attaining the desired results.

- Only 13% of those responding believed that PMRS has had a positive effect on their performance; nearly 63% believed it has had no effect; and a significant 22% reported a negative effect.

- Only 21% reported that PMRS is a useful approach to tracking and communicating organizational and individual performance.

- About 10% indicated that there were sufficient monies to make PMRS awards meaningful; nearly 80% believed that there was insufficient money for the effort to be meaningful; the remaining 10% were unsure.

When we asked whether or not quotas and forced distributions were common in their experience, only 5% reported that they are not; a disturbing 86% stated that they are common. More than three-fourths of those surveyed believed that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management. And to what degree does favoritism influence ratings? Thirteen percent replied that favoritism was not a factor; 14% were unsure; 72% believed that ratings <u>are</u> influenced by favoritism.

Despite the fact that managers are generally financially better off under PMRS than under the General Schedule (GS), only 3% of those responding believe that PMRS should be retained. Almost 50% recommended a revised pay for performance system and 41% would like either an improved GS system or a return to the GS system as it existed before PMRS.

Under PMRS the majority of managers who meet or exceed performance standards are made to feel like losers. Instead of measuring a manager's performance against standards, the managers are pitted against each other under PMRS -- an unhealthy situation.

We would like to make the statistical results of our survey a matter of record with the Subcommittee. Suffice to say, we cannot report that the PMRS is highly regarded by the majority of those it directly affects. The overall perception is one of inequity, insufficient funding for meaningful awards, a paperwork burden that is overwhelming and not worth the result, and a morale defeater not booster.

We also wish to enter into your record a compilation we have made of specific comments submitted in our survey. We believe, however, that an anonymous respondent may have summed it all up in words that just about every citizen could understand and appreciate. He or she wrote:

> PMRS robs from the many to give to the few. It's a rip-off to work your best for a year to only get a pittance as a merit increase. My teenage daughter -- who doesn't do what she's told half the time -- gets an allowance that's more than I got for a year of consistently high level work recognized by plaques, citations, letters of commendations from many outside of my organization. It's demoralizing.

Enough said for where we have been. Where do we go from here?

A recent article by Andrea Gabor for U.S. News and World Report (June 5, 1989), entitled "Catch a Falling Star System," provides food for thought. Ms. Gabor wrote: "In plucking a handful of whizzes for bonus pay, most schemes treat the bulk of employees like losers." She was writing about private industry systems of "annual reviews and performance rankings to identify and reward star achievers while encouraging the rest of their employees to improve performance." She reports that, rather than rallying employees, merit systems can erode initiative and morale by making hairsplitting distinctions between individuals. She notes that American firms are re-examining their tracking systems and are concluding that "the report cards, not the people, are flunking out." She quotes management expert W. Edwards Deming as branding yearly appraisals as "the most powerful inhibitor to quality and productivity in the Western World."

We do not propose to be quite so damning of pay for performance systems. However, most of our respondents believe the PMRS system should have major changes. Reports by GAO and OPM had similar findings.

First and foremost, except for those managers who are failing in their performance, there should be no other perceived "losers." If a manager has less than an "Outstanding" rating, even perhaps a "Highly Effective," his or her performance is suspect. To be "Fully Successful" is to have failed.

Although no appraisal system will take care of all complaints, we think that the proposed "Performance Management and Recognition System Reauthorization Act" improves upon the present PMRS system in several important ways.

We believe it is important to have separate processes for performance appraisal and for bonus recommendations. Because their performance appraisals are so important to employees throughout their careers -- with respect to their morale, their promotion opportunities, their ability to seek other positions, etc. -- it is very important that performance appraisals be fair and accurate and that they be driven by no considerations other than the employee's performance. Our survey has shown that managers' performance appraisals are much more important to them than whether or not they are awarded a bonus.

The establishment of a minimum bonus pool of 1.5% of PMRS payroll, with no legislated maximum -- the maximum depending on the agency budget and priorities -- is also an important improvement. One of the constant complaints about PMRS and its merit pay predecessor was insufficient money.

While we agree that supervisors should be able to recommend for bonuses both those rated "fully successful" and those rated "above fully successful," we do not agree with the requirement that the minimum bonus be 5%, especially in such circumstances, as now exist, of limited funds. Although one of the complaints about PMRS is small bonuses, we nevertheless strongly suggest that the amount of the bonuses be left to the discretion of the agencies -- at least as far as minimums are concerned. We believe it is far better for agencies to be able to award bonuses to all who deserve them, even if the price is a smaller bonus. We would agree with a minimum bonus only if sufficient funds were allotted for agencies to award bonuses to all who deserve them.

We believe the establishment of performance review boards to review supervisors' recommendations for bonus awards, consisting of five individuals, at least 3 of them PMRS managers, two of whom are to be selected from a list submitted by a management association representing agency managers, could be an important step in building employee confidence in the system. While the boards established by the bill are not necessarily peer groups since only three members are required to be PMRS managers, they do at least include PMRS managers. Peer review groups are now utilized by many agencies to review supervisors' award recommendations because it is thought that peer review and approval is important in establishing the credibility of awards.

The most important improvement is half-step increases in Steps 4 and above for those managers who are fully successful in meeting their performance standards and full step increases each year for those rated above the fully successful level. This feature makes up for past injustices in the PMRS system and its predecessor and provides an incentive for employees to be willing to be covered by the system. One of the most serious complaints about PMRS and its "merit pay" predecessor was that employees had no incentive to take managerial jobs covered by the system.

We would prefer a two-tiered rating system, rather than a three-tiered system. The two levels we suggest are "Proficient" and "Needs Improvement." Perhaps other adjectives may do. Clearly we have to obliterate the psychological hurts that are being inflicted by the current system. We are not sure a three-tiered rating system, though clearly an improvement over the present five-level rating system, will accomplish this because those not rated "above fully successful" will still feel like losers. To meet the intent of the law establishing PMRS -- that organizational effectiveness be improved and that productivity be increased -- we must devise a system that brings people together, not one that pits them one against another. We question a system devised solely for the benefit of so-called "super-stars," especially when one of the most frequent and bitter complaints about PMRS has been favoritism. We must devise a system where those doing a good job and meeting agency expectations feel good about themselves. It is important, if we wish to have a culture of excellence in Government, that we have a system where those who have met standards of acceptable performance are not perceived as or made to feel like losers. Otherwise, we'll wind up with another "report card" that flunks.

We hope to wind up with a system which, when a survey on it is conducted in the future, will show a much higher degree of acceptance in the workforce. None of our managers -- on whom we rely so much to carry out the public business, to serve this nation -- who are meeting this challenge need nor deserve ever to feel like losers -- they're all mostly winners and deserve meaningful recognition.

I thank you for this time and your attention.

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PMA's PMRS Survey Results

Managers covered by it are very unhappy with the Performance Management and Recognition System (PMRS), the performance appraisal system covering grades 13, 14, and 15 supervisors and managerial officials.

The Professional Managers Association (PMA), an association of PMRS managers in the Federal Government, conducted a survey to obtain the opinions of PMRS managers on the PMRS system. "PMA's survey confirms that the overall perception of PMRS is one of inequity, a paperwork burden that is not worth the result, and a morale defeator not booster," stated Helene Benson, President of PMA.

A disturbing 86 percent of those surveyed reported that forced distribution of ratings is common. More than three-fourths of those surveyed believe that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management. Almost three-fourths believe that ratings are influenced by favoritism. Sixty-three percent believe PMRS has had no effect on their performance and a significant 22 percent report a negative effect. On the other hand, 86 percent of those responding to the survey support the premise that pay should be linked to performance.

The merit pay provisions of the U.S. Civil Service Reform Act of 1978 (CSRA) were hailed as a means for making federal managers and their organizations more responsive, efficient, and effective. Instead, merit pay proved to be so counterproductive that it was described as a disincentive millstone on the back of the Federal Government. In 1984 Congress sought to remedy the problems of the merit pay provisions of the CSRA by creating PMRS. PMRS has also been a dismal failure.

Despite the fact that the managers are generally financially better off under PMRS than under the General Schedule (GS), only 3 percent of those surveyed believe that PMRS should be retained. "Under PMRS the majority of managers, who meet or exceed performance standards, are made to feel like losers," claims PMA President Benson. "Instead of measuring a manager's performance against standards, the managers are pitted against each other under PMRS -- an unhealthy situation."

PMA's survey elicited more than 2,300 responses (2,047 responses were tabulated) from Federal managers located in 43 states and throughout more than 37 Federal agencies. PMA conducted the survey on PMRS because of the large number of complaints PMA has received about PMRS since its implementation and because, under Public Law 98-615, PMRS must be reenacted or cease after September 30, 1989. PMA's survey further confirms that a substantially revised appraisal system is vitally necessary.

The following are the survey results.

- Do you agree .... that pay should be linked to performance?

  86% of those answering the questionnaire agreed that pay should be linked to performance.

- Do you have a good understanding of what is expected of you as a result of PMRS?

  55% of those answering the questionnaire felt that PMRS fosters a good understanding of what is expected of employees.

  30% felt that PMRS does not foster a good understanding of what is expected of employees.

- What kind of impact has PMRS had on your performance?

  Only 13% of those responding felt that PMRS has had a positive effect on their performance.

  63% felt that PMRS has had no effect.

  22% felt that PMRS has had negative effect on their performance.

- Does PMRS offer a useful approach for tracking and communicating organizational and individual performance?

  Only 21% of employees responding felt that PMRS offered a useful approach to tracking and communicating organizational and individual performance.

  61% felt that PMRS did not offer a useful approach.

  16% were uncertain.

- Should it be possible to assign any rating to a PMRS employee without requiring a cash award?

  57% of those answering the questionnaire felt that performance cash awards should not be mandatory (e.g., as required by statute for PMRS employees with Outstanding performance ratings).

  25% felt that such awards should be required.

  15% were uncertain.

- Quotas and Forced Distributions.

86% of those responding to the questionnaire believe that quotas and forced distributions are common under PMRS.

- Ratings under PMRS influenced by favoritism.

72% of employees responding believe that ratings are influenced by favoritism.

13% believe favoritism not to be a factor in determining ratings.

14% were unsure.

- Degree of participation between managers and their subordinates in writing performance standards.

62% of employees responding felt that there is not a high degree of participation by subordinates with their supervisors in writing performance standards.

28% felt that the degree of participation is adequate.

8% were unsure.

- Insufficient money for PMRS increases/awards to be meaningful.

79% of those answering the questionnaire felt that the amount of money for PMRS awards is insufficient to be meaningful.

- PMRS recognition of high performers.

57% of those answering the questionnaire felt that PMRS does not promote recognition of high performers.

25% felt that PMRS promotes such recognition.

17% were unsure.

- PMRS characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management.

77% believe that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management.

12% were unsure.

Only 10% felt that such characterization is untrue.

- PMRS ratings influenced by factors other than performance.

An overwhelming 86% of those answering the questionnaire felt that PMRS ratings are influenced by factors other than performance.

- Satisfaction of employees with amount of input they have in writing their performance standards.

45% of those responding believe employees to be dissatisfied with the amount of input they have in writing their performance standards.

33% believe employees are satisfied.

21% were unsure.

- PMRS hurt morale of PMRS employees.

66% believe PMRS has hurt morale of PMRS employees.

20% were unsure.

13% believe PMRS has not hurt morale.

- PMRS promotes identification and correction of performance problems.

69% of those responding believe that PMRS does not promote identification and correction of performance problems.

Only 13% perceive that PMRS promotes such identification and correction.

17% were unsure.

- Schedule C appointees receive a disproportionate share of higher ratings and award money.

56% of employees answering the questionnaire were unsure as to whether Schedule C appointees receive a disproportionate share of high ratings and award money.

37% felt that Schedule C employees receive a disproportionate share.

Only 3% felt that Schedule C employees did not receive disproportionate share.

- Higher level managers receive a disproportionate share of higher ratings and award money.

64% of those responding felt that higher level managers receive a disproportionate share of higher ratings and award money.

25% were unsure.

Only 9% felt that higher level managers do not receive a disproportionate share.

- Are there advantages to being a mid-level manager covered by PMRS?

69% of those completing the questionnaire felt that there are no advantages to being covered by PMRS.

15% were unsure

13% felt that there are advantages to being in PMRS.

- Do you believe you are financially better off than if you had been under the General Schedule?

40% of those responding believe themselves to be worse off than if they had been under the General Schedule.

29% believe themselves better off under PMRS.

29% felt that PMRS has had no effect either better or worse.

- Should PMRS be extended to all employees?

A substantial majority - 73% - of those responding to the survey felt that PMRS should not be extended to all employees.

15% were uncertain.

Only 10% felt that PMRS should be extended to all employees.

- How has PMRS affected performance of your subordinates in GS?

66% of supervisors responding feel that PMRS has had no effect on performance of their GS subordinates.

12% felt that PMRS has had a harmful effect on performance

of their GS subordinates.

5% felt that PMRS has served to improve performance of their GS subordinates.

- How has PMRS affected the morale of your subordinates in GS?

51% of supervisors responding feel that PMRS has had no effect on morale of GS subordinates.

29% felt that PMRS has had a harmful effect on morale of GS subordinates.

Only 1% felt that morale of GS subordinates had been improved by PMRS.

- To what degree have PMRS objectives of recognizing, rewarding, and motivating quality performance been achieved?

60% of those responding feel that the objectives of recognition, reward, and motivation toward quality performance has been achieved only at a low level.

28% felt that the objectives have not been met at all.

Only 7% felt that the objectives have been met to a high degree.

- To the question .. If you have a choice, which would you recommend?

47% felt that there should be a revised performance appraisal system.

41% felt that GS should be restored either with modifications or as it was.

- With modifications, 23%
- As it was, 18%

Only 3% felt that PMRS should be retained.

Are you better off to deliver service to the public as a result of PMRS?

80% felt they are not better able to deliver service to the public as a result of PMRS.

11% are uncertain.

Only 3% felt that PMRS made them better able to deliver service to the public.

COMMENTS TAKEN FROM RESPONSES TO FMA'S QUESTIONNAIRE ON PMRS

"I feel PMRS causes first line managers to keep new ideas to themselves in order to outdo their associates rather than share ideas to improve our agency."

"Supervisors don't have control over their budget, hiring, firing, etc. There is too much competition among managers instead of cooperation."

"Typically a good concept such as pay for performance gets distorted in implementation."

"The present SES, GM, GS divisions have created a caste system with constituencies that compete against each other for a share of the "pie".

"Although I have received almost $12,000 in PMRS awards during the last 7 years, I would prefer a system perceived as more equitable."

"The existing system discourages high performers because of quotas. If you get high rating one year, superviors tend to give to someone else the next year or two, even if your performance remains high."

"PMRS has lowered morale because it does not necessarily recognize quality performance. The quota system has made it such that some divisions have several quality employees yet only one can be recognized. If no one is quality, someone is still recognized."

"PMRS has been a prime source for the deterioration of quality management within government service. High performers are frustrated and disillusioned with a system dictated by dollars available not job performance."

"PMRS has created mountains of paperwork with little apparent change in rewarding good performance and punishing bad. There is little reward for high level performers, ratings are often influenced by budgetary contraints, and less fair than under GS system."

"Currently under PMRS a satisfactory rating is perceived as negative and resented."

"PMRS has not affected my performance because of my own desire to strive for a job well done and because I take pride in my work. I have received several outstanding ratings while under PMRS which have equated to a lousy 2.9%, why bother?"

"Since awards are by quota it makes no difference how hard I work. When my turn comes, it comes."

"If quality is to be first in customer relations and the use of numbers eliminated, then PMRS must be dismantled."

"Under PMRS teamwork and esprit de corps have been destroyed."

PMRS has been a monumental exercise in nothingness since it was implemented. With all the paper it consumes, a good size forest no longer exists."

"PMRS stresses goals that cause managers to look out only for themselves. It does not foster a team approach. It also results in awards for reasons other than merit which destroys the system."

"We encourage our best and brightest employees to aspire to become managers. When they do, we can't adequately reward them. There are no perks and their pay may actually suffer."

"PMRS is neither merit nor pay."

"Every year from the beginning of PMRS I received an outstanding or distinguished rating, except for one. Based on this record you would think I would be supportive of PMRS. This is not the case, because the truth is this accomplishment was achieved at the expense of the organization and the public we serve. However, as long as PMRS is retained, I will continue to respond to those incentives which benefit me personally."

"PMRS is a paperwork nightmare with little or no measurable pay off. It is not cost effective."

"PMRS should be uniformly administered so that people don't suffer windfalls or wipeouts solely based on the size of their pay pools."

"I personally would prefer not to receive any award but receive a rating that truly reflects what I deserve since it influences my future, i.e. promotion potential, rif points, etc."

"Please review In Search of Excellence. The PMRS system is exactly what you should not do to promote quality, morale, initiative, etc."

"Many of my people make more than I do. Is this how a manager should be rewarded? Even if I perform at the highest levels, I'll eventually fall behind people who work for me who get full step increases are are the same grade I am."

"PMRS is a giant step backwards for government managers. Only a few have benefited from it. Many deserving managers have received nothing through PMRS. It should be discontinued."

"Pay for performance has turned out to be a cruel joke played on people who often have the most difficult jobs in government. Many times GS employees fare better with regard to $ than their GM counterparts."

"In my opinion only about 2 or 3% of the PMRS workforce is truly outstanding. To the extent that there have been quotas, they have probably been too generous."

"PMRS is too time consuming to justify the minimal amounts involved. It has created a pecking order that has hurt morale and fostered personal and professional jealousies."

"I have been a PMRS "winner" for six consecutive years. I find application of the process to be unfair, inconsistent, illogical and fraught with favoritism."

"As a GM-14, step 10 I have received 5 distinguished performance awards. PMRS still stinks! Even though it has been good for me personally, it must be changed for the good of the organization."

"PMRS is a poor system that is further hindered by its designed objective to reduce total pay compensation and not necessarily to encourage improved job performance."

"There seems to be an imbalance when executives are receiving $10,000 awards yet there is not enough money to go around for meaningful awards for supervisors and managers."

"PMRS is a farce. I am not optimistic that any fair system can be established in the Federal service. As arbitrary as the old GS system was, it was not based on the capricious and patently unfair day-to-day considerations of the present system."

"The dollars provided even to outstanding achievers don't warrant the overall bad effects of the system. Technicians get more money for their efforts. Let's recognize more."

"Crudely, but concisely, PMRS sucks! Accountability for performance and assessment of performance have decreased while morale and motivation have declined to the detriment of quality public service."

"I will continue to do the best job I can but PMRS has certainly soured my attitude. I received a superior rating last year and received a $1375 bonus. This year I received a superior rating which was changed because our State was over its quota."

"Many employees would settle for the recognition of their efforts and the additional consideration during RIF procedures of a superior rating and would forego the $. Make agencies accountable for their performance management decisions so they cannot prostitute the system."

"Where ratings are changed, especially when we lower the proposed rating, we need to be accountable to the employee for this action. This area is one of the worst morale killers I've seen."

"Several of my subordinates have stated they have no interest in management because of PMRS. We must change the system so it is no longer a deterrent for good people to enter management careers."

"The past Administration treated Federal employees with thinly disguised contempt, a lack of respect, and engaged in a campaign to cheapen Federal service. If you think a buffed up PMRS is going to address 8 consecutive years of neglect, you are mistaken."

"Too many managers are receiving ratings above satisfactory which dilutes the amount of an award to meaningless levels. I would rather see large cash awards to fewer managers who truly performed well and specific, measurable expectations. Others could receive non-cash recognition."

"PMRS is not a motivational tool. It is a woefully inadequate response to an unmet need; realistic and fair performance appraisal."

Mr. ACKERMAN. Thank you very much.

Before we begin with any specific questions that we have, I would like to ask if you have any general reactions to the testimony of OPM.

Ms. BENSON. I was very disappointed because all of the reports, the OPM reports, the GAO reports, all of our manager surveys, show all of these problems, and I had hoped that there would be—the system they are proposing is not that different from the present system, basically. I don't really see that there is a whole lot of flexibility if agencies can choose between three and five levels.

So I am disappointed that these complaints about PMRS have not been addressed.

I don't think we need three more years of PMRS and then a study. We have had studies.

Mr. ACKERMAN. Are there other reactions?

Mr. MINAHAN. I would agree with that, Mr. Chairman.

There has been enough experience over five years. There is enough anecdotal evidence, enough testimony that you have heard today coming from the managers under PMRS itself, upon which to base a meaningful correction.

Mr. DUNCAN. I think it is time to adopt a new approach and to move ahead.

We had experience with merit pay and it didn't work, and PMRS has not worked. Now it is time to make another attempt.

We are simply putting off the solution to the problem, possibly for another three or five years.

Mr. MINAHAN. I think it also should be noted for the record that a significant number of problems associated with PMRS are really driven by the inadequate pay, the pay comparability gap that we also are under. There are a number of factors that enter into awarding bonuses because people are not getting sufficient pay.

There is also the fact that when certain managers bump up against a step 10 level, in many cases they are awarded performance bonuses because it is the only way they can get an increase.

I think some consideration ought to be given to jumping ahead, even only for the record, for the employee's official personnel file; that if they are indeed outstanding and cannot get a merit increase, it ought to be in the record so that in the event they get promoted from that particular grade, it would be taken into consideration when the grade, the step is established at the next level.

We should not be penalized for that arbitrary limitation.

Mr. ACKERMAN. That's a good suggestion.

I have a specific question of Ms. Benson on the part of your testimony, where you suggest that the amount of bonuses be left to the discretion of the agencies.

Do you mean the agencies or do you mean the review board? Who would you like to see set that?

Ms. BENSON. Well, if we are talking about minimum, I mean, if the agency wants to establish a minimum, the supervisor puts in the recommendation. If the agency wanted to establish a minimum bonus, that would be one thing. But I would not like to see a minimum bonus mandated by law.

Then, as far as how a particular award goes to a particular employee, I assume the supervisor is going to send up a justification

with the amount of an award recommended, and then the performance review board would look at all of these justifications.

Mr. ACKERMAN. But you don't mean, then, the amount of the bonuses? You mean the minimum? Is that it?

Ms. BENSON. Right. If there is going to be a minimum, the agency decides.

Mr. ACKERMAN. Okay. I just wanted a clarification of that because your testimony says that the amount of the bonuses should be left to the discretion of the agencies.

Ms. BENSON. Left in the agency. Left in the agencies, and if they want to establish a minimum, fine.

Mr. ACKERMAN. It is still not clear to me.

Do you mean that the agencies should make the decision of the minimum, as opposed to the law, or do you mean that the agency should set whatever minimum, as opposed to the preference of the review board?

Ms. BENSON. No. The review board should set the actual award for specific employees.

Mr. ACKERMAN. But if there is a minimum?

Ms. BENSON. The agency should set the minimum.

Mr. ACKERMAN. The agency itself should set that?

Ms. BENSON. If they want to.

Mr. ACKERMAN. I appreciate that clarification.

Concerns have been raised that allowing the management associations to pick some of the review board members could lead to an indirect coercion of employees to join management groups.

Would this be a problem?

If so, to whatever degree it might be so, how would you address it?

Mr. DUNCAN. We do not think it would be, from the standpoint, certainly of the Social Security managers, as between 75 percent and 80 percent of eligible employees already are dues paying members. Clearly, as we deal with the agency on agency-related issues, we speak for all Social Security managers, whether they are members or not.

I do not foresee it becoming a problem in the future with association representation on the review board.

Mr. ACKERMAN. I think the question goes more to the heart of whether people will be intimidated into joining associations if they knew that members of the association were sitting in judgment of them. Would there be a perceived, or a real, bias on the part of those who do not belong to associations to say well, if I am going to be judged as to whether or not I am entitled to a reward and be compared in the course of that judgment being made to others of my peers who may belong to the association, will I be disadvantaged not belonging to the association?

Ms. BENSON. I don't think so. I think there might be an incentive for people to join the association if they wanted to be on a performance review board or have some say on who, from the association, would be nominated. But I don't think they would be coerced.

Mr. ACKERMAN. Nonmembers could be on the board, then?

Mr. DUNCAN. Only two out of the five.

Ms. BENSON. You see, it is only two that will be nominated by the association.

Mr. MINAHAN. We don't see it as a problem, either.

Mr. ACKERMAN. You wouldn't see anybody feeling that they would be discriminated against because they did not belong to an association?

Mr. MINAHAN. Not at all.

Mr. ACKERMAN. GAO has testified that the Subcommittee should reconsider the PRBs established by the bill and that agency heads should retain the final say on the size of performance awards.

Would your members object if the board were merely advisory?

Mr. MINAHAN. I think we would object.

I think there has to be some fix for that perception of favoritism. There has to be a check and balance in the system to provide for that. It ought to be a decision-making body.

Mr. DUNCAN. One of the things that the gentleman from GAO was talking about was having perhaps the review boards rank the people in the merit pay pool with the manager not being able to change the ranking.

Our understanding of the bill is that the individual employee's supervisor would be the gatekeeper, would not recommend people for bonuses that he or she did not believe deserved bonuses, and that the function of the board simply then is to do as the gentleman from GAO talked about, the ranking and determining, in terms of what the supervisor has written in the documentation provided which employee has given most worth to the agency's performance.

So I do not see the problems that GAO would see.

Ms. BENSON. I think our members would prefer that the boards be able to decide. But being able to advise is something.

The point is that there are only three PMRS managers. There are two other slots, and the agency can appoint SES people to the board. It is not as if the management and the agency is totally losing control here.

I think it gives a perception of fairness. I mean, there are peer review groups in the agencies now that are advisory. But almost always the deciding official follows their recommendations, and if they don't, there does not seem to be much point in it.

Mr. DUNCAN. I think there is also a misperception that an individual's immediate supervisor determines the size of the award under the current system. That, at least with regard to Social Security, is not the case. The individual supervisor may or may not decide on the final rating. But the amount, for example, that an individual receives, if they are outstanding or exceeds fully successful is normally determined at least one and probably two or three levels higher, when the money is distributed.

So the individual's immediate supervisor does not make the decision about how much of an award there is at the present time.

Ms. BENSON. The gentleman from GAO talked about people knowing the people on the board, and if you have a lot of visibility, and soon. You are supposed to be looking at the supervisor's justification. That is how peer review boards work. You look at the justification.

They are not deciding who is getting the bonus. They are deciding how much it is going to be.

Mr. ACKERMAN. In line with the point you just brought up, would we be replacing the perceived or real problems that go along with favoritism with problems, perceived or real, with popularity?

Ms. BENSON. I don't think so.

First of all, the board cannot consider anybody that the supervisor does not recommend. So, first of all, they have to come before the board.

Then you are supposed to be looking at the paperwork. I suppose you bring your own experience to it.

But I don't think so.

Mr. ACKERMAN. I think they are setting up the boards because somebody is saying somewhere along the way that the thing that the managers or the supervisors are supposed to be looking at they are not necessarily looking at. So we are opening up our prejudices to whatever decision-making roles we find ourselves in.

Ms. BENSON. I think peers bend over backwards to be fair. I think that is what we would find.

Mr. DUNCAN. I think Congresswoman Morella's example of peer review boards in higher education is a good example of where it has worked. There is no particular reason that the same kind of peer review board that happens in higher education would not work here. At least it is an idea worth trying.

Mr. ACKERMAN. Let me thank the three of you for appearing before us and presenting your points of view. We have found it edifying and clarifying to some extent, although there seems to be some disagreement on percentages, ranging anywhere from zero to 2 percent to 3 percent, and not a great deal of concurrence with our suggestion of 5 percent at this point. But we certainly are not wedded to any number, and that is the purpose of this hearing.

So, on behalf of myself and all of the members of this subcommittee, official and ex-officio, let me thank you and all of the other people who participated with us in this hearing today.

Thank you very much.

Let me announce that additional statements received will be included in the record.

The hearing is adjourned.

[Whereupon, at 12:47 p.m., the subcommittee adjourned, to reconvene upon the call of the Chair.]

Classification and
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STATEMENT OF THE

CLASSIFICATION AND COMPENSATION SOCIETY

ON PERFORMANCE MANAGEMENT

PRESENTED TO THE

SUBCOMMITTEE ON COMPENSATION AND

EMPLOYEE BENEFITS

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

JULY 18, 1989

Mr. Chairman, the Classification and Compensation Society, a non-profit professional and educational organization dedicated to promoting improvements in human resource management systems and procedures, is pleased with the opportunity to present its views on performance management in the federal government. Our organization looks upon performance management as an integral part of a comprehensive personnel management system, which is why we are submitting this statement to you today.

The search for an effective performance evaluation system has in some ways taken on the dimensions of a mythic quest like that for the fountain of youth. Sin Yu, a Chinese philosopher writing during the Wei Dynasty (221-265 A.D.), criticized a management official's rating process by observing:

> The Imperial Rater of Nine Grades seldom grades men according to their merits but always according to his likes and dislikes. It is difficult to judge men and and I do not blame him.

It is indeed difficult to judge individuals fairly, equitably, and consistently, and the federal government has had no better success than the ancient Chinese bureaucracy. Actually, the federal government has been seeking an effective performance assessment system for at least as long as it has been attempting to deal with classification and pay problems, and that has been for a long, long time. The quest predates not only the Civil Service Commission established in 1883 but its predecessor, the Grant Commission, set up in 1871. In 1887 efficiency ratings introduced by the Grant Commission were formally installed as one of the factors in promotion determinations. In 1891 Congress required the Departments by law to establish a system of efficiency ratings. It would not be unfair to state that we have not advanced very far since the 19th Century in devising a workable means of making performance determinations. Certainly, recent surveys and studies by the Professional Managers Association, the General Accounting Office, the Federal Managers Association, and others provide clear indications that the current PMRS process is perceived to be defective in many aspects.

Nevertheless, since a man's reach should always exceed his grasp, we shouldn't cease trying, but we should recognize that any system we can devise will be fallible and can be no more than <u>one</u> component in a mosaic of factors influencing performance management and compensation determinations. Mr. Chairman, we have studied the bill that you and Representative Hoyer have submitted and find it to be a laudable attempt to provide an immediate fix to some of the most egregious problems of the current PMRS system before it lapses. We strongly support such provisions as fixing the lack of parity--the "glitch"--between middle range PMRS employees and their GS counterparts, and replacing the current five-tier rating system with three. Still, the bill does not get at some of the fundamentals of the problem.

We would urge you to reauthorize PMRS only through 1990 rather than through 1995 as your bill currently provides. Let us hold everyone's feet to the fire on fixing the fundamentals. Taking pay for performance off the table until 1995 won't buy time for reasoned study, it will simply perpetuate indifference toward dealing with intrinsic problems. We are providing the following general commentary in hopes that we can both stimulate and assist the effort to examine not only the procedures but the principles on which the system is grounded.

The starting point and basic building block of a performance management system is the performance appraisal. Its great benefit to manager and to employee alike is the feedback provided between the two. The performance appraisal is first and foremost a communication device. A Position Paper, prepared by a joint IPMA-Classification and Compensation Society Working Group, discusses in detail this concept, and is attached for your information.

Beyond treating the performance appraisal document as a communication and feedback device, however, there is the question of how to reinforce good performance and encourage improvement through the use of financial incentives. Deciding on whether and how to provide money, and how much, in order to motivate and reinforce desirable behavior is after all the end result of any system that purports to "manage" performance monetarily.

The Society's strongly held position is that a performance management system cannot be a substitute for salaries that are not competitive with the private sector, non-profit organizations, and state and local government. Salary rates for federal jobs are today simply not competitive in most major metropolitan areas. As the National Commission on the Public Service has observed:

> A number of the conditions regarded as necessary for successful implementation of merit pay do not obtain in the federal service. Private-sector situations in which merit pay is established and accepted are further characterized by base pay levels that are at least at the average for other employers in the labor market.

If the federal government as an employer is going to generally underpay the market for the work it needs to have done, it will have a foundation of quicksand for any monetary motivational system that is superimposed on the basic pay structure. It is both unfair and unsound to use an incentive system to make up for inadequacies of basic compensation.

It is a truism that any reward system should act as a motivator, if an employer is to receive any benefit for the dollars expended. Money must be meaningful to motivate, however. If a performance incentive system is underfunded, as this one has been, then how can anyone expect to stimulate and encourage employees, especially when those employees are generally underpaid in the first place. It's more like poking a stick at a wounded dog. If it can't be funded properly, then don't have a monetary incentive system at all. Give employees an autographed picture of the agency head instead, or something equally meaningful.

A parsimonious and purblind approach may actually have a depressive effect. To illustrate the possibility, consider a recent case appearing in the press. A high Pentagon official indicated that a cost-savings program in DOD had saved the Department $36 million in direct costs and $116 million more in "cost avoidance." As a reward 38 employees received cash awards averaging less than $1500 each. "I don't know where I can get a better payback for $48,000" the official testified happily. That's a return to the employees of .0003 %--less than four ten thousandths of one percent. Such government tightfistedness would horrify our competitors, the Japanese, who routinely pay out more in bonuses to their employees

than they keep in profits. Such shortsightedness on the federal government's part is unlikely to achieve more than a one-time payback, if recent study data are indicative.

As a matter of fact, a recent Wyatt Company study of private sector pay practices done for the Advisory Committee on Federal Pay found that the typical company merit pay budget is about 5% of salaries. The federal government currently allows 1.5%. While your bill would establish 1.5% as a floor, it is simply not enough. Edward Lawler, just one among many scholars who have studied the subject, concludes that pay-for-performance incentives must be large enough to be both noticeable and significant. It is exceedingly difficult to pay out noticeable amounts to significant numbers of employees when the merit pay pool from which funds are drawn is more like a puddle.

There are other points which should be stressed. For instance:

--Performance ratings, especially at the higher levels, don't seem to be linked in any meaningful way to organizational effectiveness. The Head Coach of a last place ball team is never in the running for the Manager of the Year Award--instead, he is in danger of losing his job; neither should a federal manager get a bonus when the organization managed is floundering. In recent years the private sector has provided us with outrageous examples of executives receiving obscene amounts of bonus money while workers were being laid off and stockholders shortchanged. This is one practice that we shouldn't want to import from the private sector.

--Incentive schemes in the private sector ordinarily reward up to 85% of those covered. Pete Brown, the Director of Personnel of American Cyanamid, a Company recently written up in the Harvard Business Review for its innovative approach to performance, reported at the Classification and Compensation Society's June luncheon seminar that about 80% of their employees fall into the general category of doing a good job, and are rewarded for it. The other 20% are grouped about equally into "eagles" and "turkeys" and treated accordingly. The assumption embedded in the federal performance management system at all levels is that there are only enough funds to reward a distinct minority of eligible workers, no matter what their level of performance. Thus, whether or not ratings are constrained as a matter of policy, the end result is the same when funds are restricted--a forced distribution, with all its rigidity, arbitrariness and inaccuracy.

--An allied flaw in the current systems design is the concept of employees competing against each other in the pay pool for scarce dollars instead of concentrating on achieving well thought-out, measurable objectives which will foster the mission and goals of the agency. The focus should be shifted toward the larger context by emphasizing teamwork and co-operation towards a common goal more than individual accomplishment. Keep in mind the contrast between

efficiency and effectiveness, when efficiency is defined as doing something well that might not need be done at all. We should be stressing effective performance, not efficiency.

--The current system seems to occupy more and more of management's time with less and less positive benefit. This is partly a result of emphasis on ratings rather than on performance planning and communication at the beginning and throughout the rating period. A cumbersome, hair-splitting five level rating scheme doesn't aid in the process either and we applaud your effort to reduce it to three.

--Currently the performance appraisal system is separate and distinct from the position classification process. The Society believes that job content and job performance are inextricably intertwined and to treat one in isolation from the other is very often to risk measuring and crediting significant factors twice or overlooking others.

The Society offers the following recommendations:

A. Fix the base pay problem as the first step in laying a firm foundation on which to rest a performance system. Deliver performance pay as a reward and an encouragement over and above an adequate base salary rather than as a substitute for realistic pay levels.

B. Emphasize and exploit the performance rating process potential for communication and feedback between supervisor and employee.

C. Emphasize objective performance planning by supervisor and employee as the basic appraisal device. Reward all whose performance meets objective criteria rather than ranking employees against each other. Emphasize teamwork and co-operation through more emphasis on group awards and managerial accountability.

D. Increase the funding of performance pay pools so that it will be unnecessary to impose ratings distributions. If cost savings and quality improvements are quantified, and such savings earmarked to fund performance programs, the size of incentive pools could be raised to at least the private sector average.

E. Simplify the system. Reducing the number of rating levels to three is a fitting place to start.

F. Encourage continued experimentation with alternative performance management systems, especially those with a group accomplishment orientation. Focus individual attention on achievement of agency objectives.

G. Devote time and effort to the research and design of a system which will integrate the position and the performance. Develop a

single rating scale that will create a unitary decision process linking job content with the manner in which the work is performed.

In closing, it should be noted that a representative group of Society members in studying the pay for performance issue characterized the current system as "the manipulation of people through the manipulation of pay." Paul Volcker, in his Commission Report, urged Congress and the Executive to provide "competitive pay and demand competitive performance." The Society believes that there is a long way to go from the current "manipulative" system to one characterized by competitive pay and competitive performance. But every journey begins somewhere, and now is the time to begin.